

## Financial Services – Technology-led growth



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Technology is transforming our day-to-day life like never before. Cutting edge is being cut further to give it more edge. As soon as we feel that we have reached the limit, we soon come across a bigger and a better way of doing the same thing at a much faster pace with more accuracy and at a lower cost. Not in the distant past, internet speed was measured in Kilo Bits

per second (KBPS) which gave way to Mega Bits per second (MBPS) which was replaced with Giga Bits per second (GBPS) and we are not far from using Tera Bits per second (TBPS). From analog voice services of 1G in 1980s to ultra-high speed 5G in 2020, telephony has revolutionized the way we communicate. Telecom providers are already working on implementing 5G. Once on to 5G, everything – almost everything – will be connected virtually.

Technology is driving us beyond the limits in every aspect of our life right from birth (or should we say before birth?), the way we are brought up, the way we learn, the way we are being entertained, the way we deal with medical issues, the way we travel, the way we communicate and not to forget, the way we do our businesses. The dependence of every business, on technology is increasing and financial services sector is no different.

The recent pandemic has hastened the process of automation and dependence on technology. To our surprise, all of us very quickly learnt and adapted technology to work from home. No one would have imagined that so many unskilled or semi-skilled people will be able to manage this change and the pace at which this was adopted surprised the most optimists alike. Like many others, financial markets not only survived the pandemic but saw unprecedented growth in number of transactions and value.

Digital adoption is making financial markets more transparent, accessible and inclusive. Almost all financial transactions including banking, insurance, stock trading are being carried out using mobile phones. Technology adoption has helped insurance companies to reach more customers, issue more insurance policies and settle insurance claims while most of the staff worked remotely. We did not face any major disruption in banking services during pandemic as banks made best use of technology

during the challenging times. As of 31st March 2021, India recorded 25.5 billion digital real time transactions and retained top slot in the world. Share of electronic payment transactions is expected to surpass 71% by 2025. Indian Government, regulators, banks and fintech are collaborating to increase electronic financial transactions. Small vendors and service providers have adopted digital payment mechanisms and are happy to see the expansion of their business. Digital wallets have replaced physical cash boxes and rightly so.

Stock markets across the globe are functioning normally and are seeing unprecedented growth in number of trades and participants. Large IPOs are being launched which are successfully getting oversubscribed during global lockdown period. Investor meets for IPOs and other activities are conducted virtually yet effectively. Financial and capital markets across the world have been functioning without any noticeable disruption. Work from home has increased direct participation of investors in primary and secondary markets. Investor base has increased manifold and all intermediaries are experiencing unprecedented volume growth. More than 14 million new demat accounts were opened in India, during financial year 2021 which is almost three times more than previous financial year. This is particularly noteworthy as it happened during one of the largest, longest, and strictest lockdowns in the known history which restricted physical presence and movement. e-KYC certainly helped banks, insurance companies, brokers and depository participants in particular to open new accounts. Retail participation in Indian stock markets is expected to grow even more rapidly with the help of technology support.

In India too, IPOs are receiving record-breaking subscriptions and average participation is crossing two and a half million applications in most of the IPOs. But for the technology, it would not have been possible to serve the rapid increase in volumes. Using UPI and electronic blocking of funds we have been able to successfully reduce timelines for listing from 12 working days to 6 working days. Despite very large volumes, many IPOs are able to list a day / two ahead of statutory deadline thanks to use of technology.

Financial inclusion is gathering required momentum. Jan Dhan, Aadhar and Mobile (JAM) has brought more transparency and speed in ensuring efficient implementation of government schemes and the targeted beneficiaries are benefiting. People living in remote areas are able to avail services which were impossible for them in the recent past. The number of transactions on virtual market platforms are scaling new highs including from semi-urban and rural areas and market for goods and services have expanded beyond traditional boundaries.

The Bombay Stock Exchange (BSE) is the fastest stock exchange in the world. The National Stock Exchange (NSE) is the world's largest derivative exchange in terms of contracts traded. Gujarat International Finance Tec (GIFT) City is striving to lead tech-based financial markets and provide state of the art experience to international participants. Proposal for reducing settlement period for secondary market transactions from T+2 to T+1 is under active consideration which will reduce the risks and improve liquidity.

The financial services sector is using artificial intelligence (AI) and machine learning (ML) to improve service experience. Chatbots are being used to attend routine queries and with passage of time, further intelligence is being built to make chatbots more responsive. Digitisation and cloud computing is expanding at breakneck speed. Stock exchanges across the globe are exploring use of blockchain technology. Blockchain is expected to transform financial markets whereby the cost of transactions is expected to come down significantly. Blockchain is likely to reduce intermediation which may reduce the time and could increase security. Bitcoins are gaining acceptance and the virtual currency is expected to record financial transactions in secured, transparent and traceable way though there are a lot of questions to be answered and hurdles to be cleared.

Fintech is challenging traditional systems and processes. Regulators are encouraging usage of sandbox to enable fintech to experiment their ideas on large samples of real-life data. Platform-enabled solutions are disrupting brick and mortar service models. It is becoming easy to upscale virtual infrastructure which in turn is reducing time to reach the market.

Sudden surge in technology adoption has created very high demand for tech workers. IT and tech firms are finding it difficult to attract and retain talent. Automation and technology are becoming key contributors for maintaining leadership and growing profitability. Tech platforms and virtual markets are providing level playing fields and are generating lot of job opportunities. Fintech are challenging traditional banking, broking and insurance establishments.

Fintech are generating new unicorns and it is expected that they will dominate wealth creation in times to come. Vertical growth of fintech will provide better tools and options to the people to trade, earn, save and invest which in turn will ensure more financial maturity resulting in economic growth and upliftment of the lower level of population pyramid. Indian fintech is growing at CAGR of 22% and is expected to reach \$84 billion by 2025.

The future is certainly more exciting and promising. Let's fasten our seat belts.

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