

# Emerging Financial Transformation\*

*"Universal access to financial services is within reach—thanks to new technologies, transformative business models and ambitious reforms... As early as 2020, such instruments as e-money accounts, along with debit cards and low-cost regular bank accounts, can significantly increase financial access for those who are now excluded. "*

**Jim Yong Kim**

*President, World Bank Group*

## Prologue

Finance transformation is not a matter of choice. Any Company wishes to remain competitive, they must consider the changing role of Finance in helping the entire organisation create greater value. Through international corporations operating across a score of markets, many of them emerging and fast-growing, old financial operational models are simply not effective.

The identical challenges of compliance and globalisation, international corporations must transform both the way their Finance function operates and its relationship with the wider business. The acquiring new skills and new technology, as well as an understanding of the impact of the new regulations on the whole organisation and then Finance, must take the lead in advising the board and management on how to operate under them. Which meant a new, more strategic role and mandate for the Finance function at the heart of the business, combining greater visibility, agility and efficiency with a firm grasp of the business's long-term strategic needs.

A government initiative dubbed "Digital India" has further enabled automation in the financial industry. Fintech-based payment methods such as UPI, IMPS, and payment wallets have created a paradigm shift in how money is exchanged in India. Through introduction of UPI along with the Jandhan account, financial institutions like banks have been able to connect with their remotest customers more efficiently. Today, many people use UPI to pay for even small purchases, as low as 10 rupees.

## Digital Financial Transformation

Digital Finance encompasses a magnitude of new financial products, financial businesses, finance-related software, and novel forms of customer communication and interaction-delivered by fintech companies and innovative financial service providers. Digital Finance can expand the access of financial services to sectors other than financial sectors. Agriculture, transportation, water, health, education, and clean energy are the sectors where the benefits of digital finance can be reached.

Digital Financial transformation is the reorganising and reshaping of finance and accounting function using technology to recreate efficient operating systems and processes without replacing traditional systems. While digitally-led financial transformation is essential

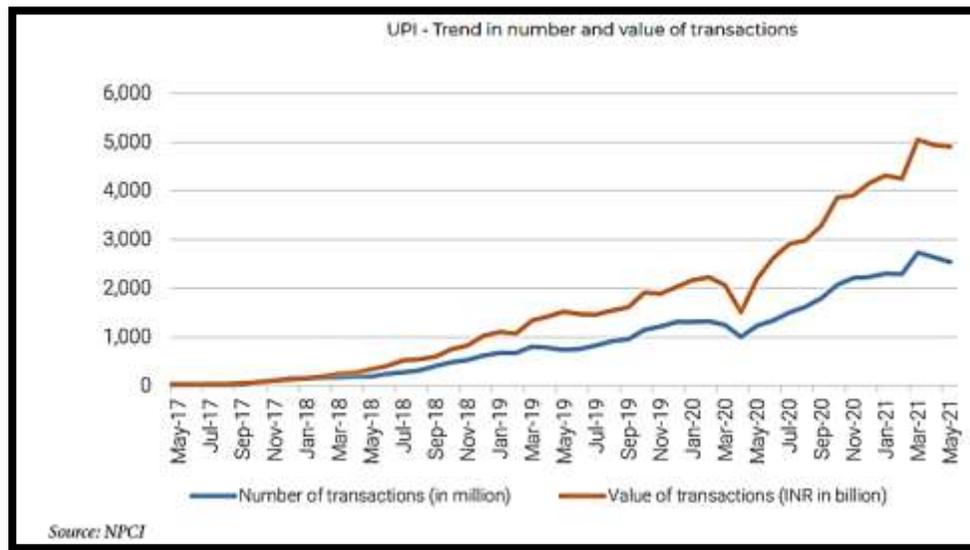
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for enterprises, many financial institutions remain in the throes of change due to various challenges.

Every sector of the economy is shifting from the traditional method of working to the digital functioning. Banking sector as the important sector of the economy had also moved towards the digitalization in place of the traditional and manual working system. The banking sector had adopted various digital tools and techniques in order to provide a comfort and secure zone to customers and performing various banking activities from their place of living itself. This facility provided by the banking sector was of great help to the individuals as well as to the economy.

During the COVID-19 pandemic it is seen that a greater number of customers have started using the digital services provided by the banking sector. Not only it provides security to the customer it also saves the time and provides convenience to the customer as it is operative 24\*7 and it enables the customer to operate from their place. These all features have enabled the more and more use of the digital services of the banking sector in the conditions of the pandemic. Digital transformation has played a great role in dealing with the problems of the COVID-19 and this has helped in performing the free flow of activities. During pandemic, the contribution of UPI in quick transferring of payment was very impressive. Unified Payments Interface (UPI) is a mobile-based, 365x24x7 'fast payment' system launched in August 2016 which allows users to send and receive money instantly using a Virtual Payment Address (VPA) set by the user itself. The UPI 2.0 was launched in August 2018, which enabled users to link their Overdraft accounts to UPI VPA. Users are also able to pre-authorise transactions by issuing a mandate for specific merchant for a one-time payment. There's also an added feature of AutoPay facility for recurring payments. The following figure shows the trend in number and value of transactions in last 4 years.



### e-RUPI- A Novel Digital Financial Solution

Government of India in August 2021 launched digital payment solution e-RUPI, a person and purpose specific digital payment solution. e-RUPI is a cashless and contactless instrument for digital payment. The e-RUPI voucher will play a huge role in making DBT more effective in digital

transactions in the country and will give a new dimension to digital governance. This will help everyone in targeted, transparent and leakage free delivery.

### **FinTech-related Activities**

The Indian FinTech industry as it stands today is the result of unique concoction of India's technological enablers, regulatory interventions, business opportunities as well as certain other unique characteristics, which have led to the establishment of the third largest start-up ecosystem in the world. As the COVID-19 pandemic continued to create uncertainty, stress has emerged for some FinTechs, while some others gained from new business opportunities the pandemic provided. However, as the broader economy shifts from "respond" to "recover", new employment opportunities may be created by some FinTechs.

### **Challenges and Opportunities for Fintech Expansion**

While digital finance firms have benefited from the government's pro-startup policies and flexible regulatory conditions imposed by the Reserve Bank of India (RBI), formal institutions possess an established infrastructure and legacy that is not easily replaceable. Fintech startups need to instill greater confidence among Indian customers, already known for being conservative in their financial preferences. Figuring out how to market to their needs and influence financial behavior are some of the biggest challenges, as is setting up a strong and responsive regulatory infrastructure to keep pace with the speed of technological innovation.

On the other hand, traditional banking and financial institutions can leverage their existing customer base and adopt digital products that nurture strong financial relationships while improving service efficiency and broadening access to meet changing needs. The disruptive potential of Fintech firms can provoke the much needed modernization of the traditional sector, reducing costs in the process and increasing the size of the banking population.

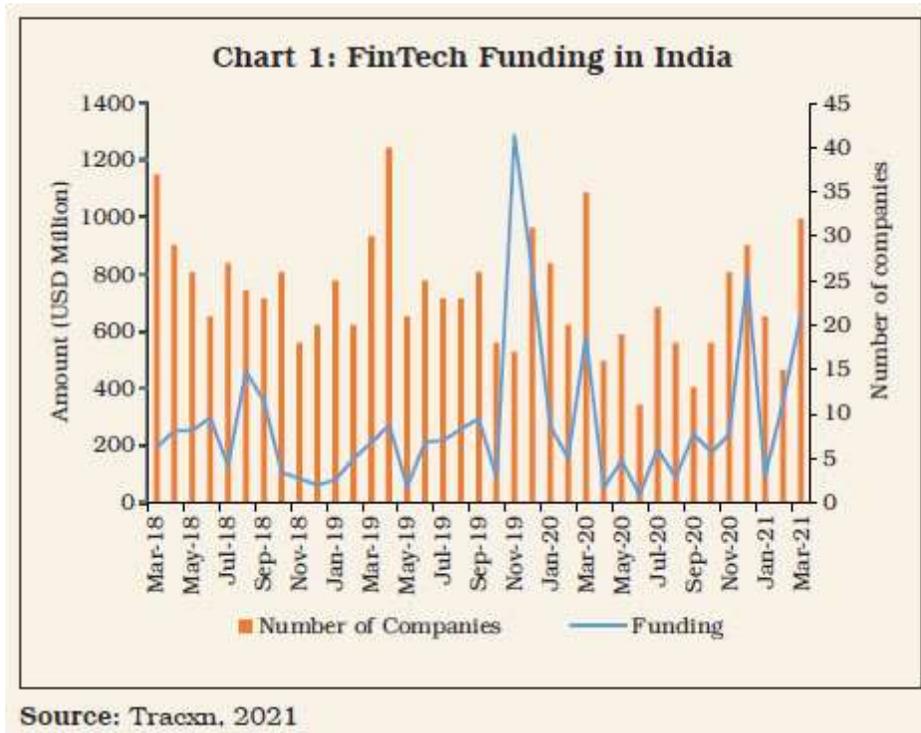
### ***Funding and Employment Trends during COVID-19***

Over the past year, COVID-19 pandemic has brought to fore the crucial role of technology amidst widespread adoption of social distancing and work-from-home culture. While many economic and financial indicators continued to slide into negative territory throughout 2020, the enthusiasm towards start-ups did not wane drastically. Data from Tracxn show that despite the global economic slowdown, US\$ 56.1 billion were invested into the FinTech sector globally during 2020-21 (April-March), as compared with US\$ 84.8 billion in 2019 and US\$ 77.8 billion in 2018. The US and Canada continued as the leading geographies for new companies, followed by Europe.

In 2020-21, nearly US\$ 3 billion was invested in Indian FinTech (approximately US\$ 4.5 billion last year), indicating a tempering of investor sentiment due to the economic slowdown. Nevertheless, monthly trends indicate a revival of investor sentiment as the economic shock of the pandemic wears off.

Besides promoting financial inclusion, FinTech can also provide impetus to growth and employment. Empirical analysis of employment trends in Indian FinTech using random-effect panel data model provides some interesting perspectives. With appropriate controls for company scale and funding stage, it is seen that the amount of funds raised is an important determinant of employee count. Also, more mature firms in later funding stages are more likely to have higher employment strength. An assessment of the operational domains indicates that online insurance providers are more probable to have higher employee count (due to the need for on-ground staff of surveyors), while highly specialised FinTechs such as those in the

accounting technology domain are more likely to operate with very few highly skilled employees.



The Reserve Bank continued its efforts to develop state-of-the-art payment and settlement systems in the country and enhance the digital payment experience of the consumers, while ensuring adequate security measures. These initiatives have facilitated smooth transition towards a less cash society with improved transaction efficiency and a delightful digital experience. Amidst difficulties arising from the COVID-19 pandemic, efforts were also made for the smooth functioning of the payment system. Further, the Reserve Bank focused on enhancements in the IT infrastructure for internal users also contributing to improved efficiency. It also helped expand coverage for government transactions using digital technologies. Going ahead, strengthening the payments ecosystem, enhancing awareness, and ensuring facilitation of digital payments across the length and breadth of the country will be the key areas of focus of the Reserve Bank.

### Benefits of digital financial transformation

- **Enhanced customer experience:** According to a survey, 76% of financial service executives believe customer experience is the top priority for digital transformation. Customers today are tech savvy and expect brands to be ahead of them. Going digital can track, attract, and positively engage customers, while banks and FIs can offer and deliver consistent and personalised products and services.
- **Improved operational efficiency and revenue generation:** Deploying the right set of digital transformation tools streamlines operational processes by automating manual tasks and integrating data. Such initiatives help save time and costs, resulting in increased profits.
- **Easy data accessibility and management:** Digital transformation efforts help in collecting, managing, and storing raw customer data that can be analysed to boost business intelligence and optimise growth.

- **Process agility and operational productivity:** Automation invariably increases process agility and productivity by eliminating human-induced errors. It improves precision in repetitive processes and can greatly improve operational efficiencies.
- **Insight-driven decisions:** AI-based analyses enable faster trade decisions in capital markets. Business decisions and strategies can now be based on calculative insights with a more customer-centric product or a service.

### Challenges in digital financial transformation

- **Legacy systems:** Shift from legacy to new technological infrastructure and digital expertise requires huge investments and transition costs.
- **Security and compliance:** Unlike fintechs and other new financial players, banks and traditional FIs are subject to high security risks due to voluminous personal data and transaction records, which make it harder to execute changes while meeting compliance requirements.
- **Customer expectation on user experience (UX):** The purpose of digital transformation is to offer customers improved efficiency and consistent user experience across platforms. Traditional banks and enterprises find this hard to achieve because it requires extensive research, time, strategy, and marketing to offer the right choices to customers.
- **Workplace culture and reskilling workforce:** Changes in workforce and workplace culture are significant as the talent model switches and focuses on data scientists and analysts, thereby mandating upskilling among employees. Efforts here require time, strategy, and clear objectives and communication.
- **Competition:** Competition with fintechs and new online finance players like Amazon, Google, or Facebook leaves banks out of the process as customers transact directly. However, banks are more secure and regulated, giving them the edge if they go digital.

### Conclusion

Financial Transformation empowers finance leaders to gain full control over various financial processes. This can be achieved by automating accounting workflow and providing a secure workspace to complete financial activities including Financial Reporting. The main reason for performing a financial transformation is to increase efficiency and to reduce time while performing financial activities using the potential of financial automation.

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