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DISRUPTION OF BFSI SECTOR

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ABSTRACT
With the proliferation of technology in banking, Financial Services and Insurance sector, customers are having the expectation of faster services than in past. This has led to an evolving customer-bank relationship necessitating banks and Financial Sector to be more customer-centric by embedding themselves in customers' lives to meet rising customer experience expectations. However, banks have been facing challenges in meeting customer expectations. But at the same time they are troubled with legacy challenges both in terms of technology and attitude. This paper aims to understand and analyze the trends in the BFSI sector that are expected to drive the dynamics of the entire financial services industry's ecosystem in the near future

KEY WORDS: Banking, Insurance, Technology, Block Chain Technology, Mobile Payments

UNDERSTANDING BFSI SECTOR

The evolution of banking sector, post-independence started in the form of nationalized banks, which further got dramatically changed at the time of emergence of New Private Sector Banks, around 1993. Another milestone in banking was the introduction of computer in around 1970s. But none of the developments disrupted the banking sector in that big way, as it is happening today and also expected to continue, with the application of Artificial Intelligence, Block Chain Technology, Payment Transfer Systems and changed outlook of Government, in terms of introducing more stringent policies. Likewise, in Financial Services and Insurance sector, technology has entirely changed the type of products and Customer Relationship Management.

Like most other industries, the banking industry has seen its fair share of fluctuations in recent years.Big disruptions, many of them driven by technology like using Blockchain, Big Data, Internet of Things, Artificial Intelligence, Software Robots and newly evolved payment systems has invited a new era of banking and Financial Services.

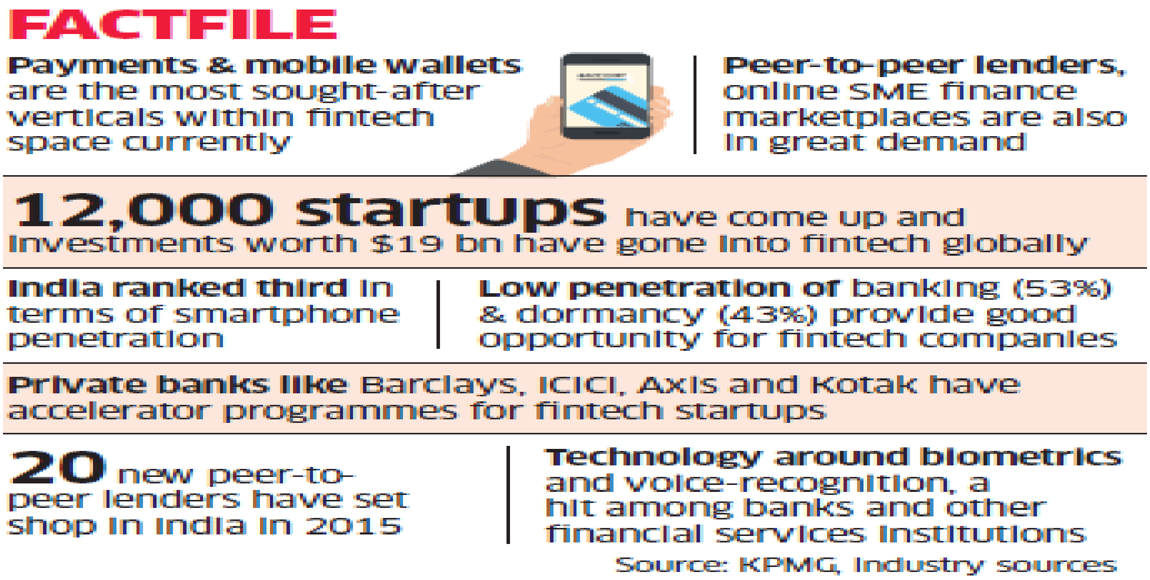

Figure1

Source:
//economictimes.indiatimes.com/articleshow/52739060.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst/ 05.06.2018

DISRUPTIONS AND LATEST TRENDS

Before we discuss the changes, what are supposed to be introduced in BFSI sector, let's discuss some of the changed scenario in banking and Financial Services?

CHEQUES ARE OUTDATED:

Paying with checks carries so much inherent risk for fraud and identity theft. Also, the time lag defined as float in form of deposit float, receipt float and delays in clearing are some major challenges in payment through cheques. A study by blog. Micro save has proven a continuous fall in the usage of paper clearing instruments. Fig. 2 mentioned below has shown a fall in usage of paper clearing devices by 30%, up to 2015. Even if same rate of reduction of usage of cheques is seen in past two financial years the usage of cheques has been reduced by 50% and expected to reduce further.

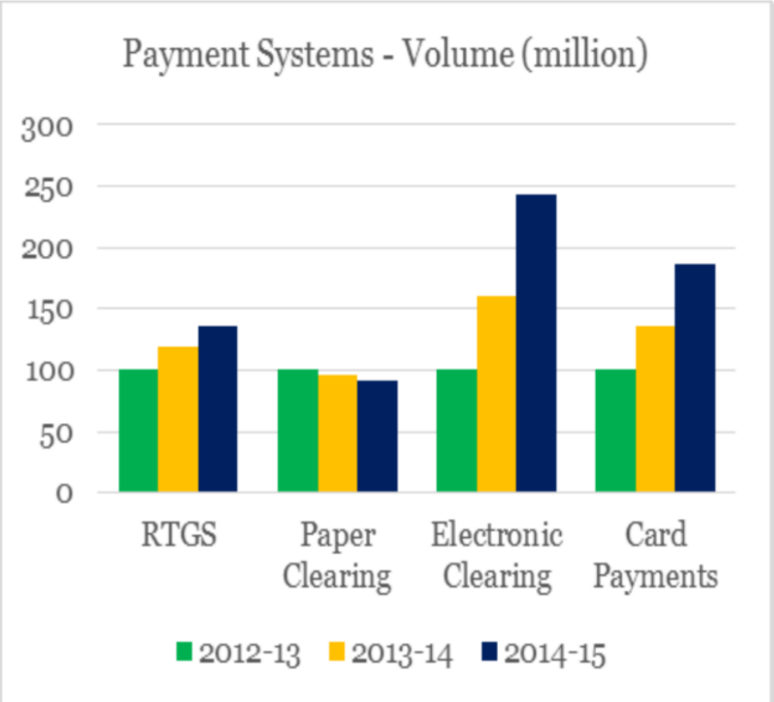

Figure 2

SOURCE:

http://blog.microsave.net/payment-systems-in-india-and-current-status-a-perspective/5.6.2018

EMERGENCE OF FINTECH COMPANIES:

Fintech companies have placed themselves in the enviable position to disrupt the relationship of the bank and its customers. A study by Venture Intelligence has shown the huge investment amount made in Fintech companies in India over past few years. Growth of the economy and government initiatives such as Jan Dhan Yojana, Direct Benefit Transfer program and Unified Payment Interface have also helped and make the fintech companies more sustainable. A study by KPMG suggests that the Transaction value for the Indian fintech sector is estimated to be approximately $33 billion in 2016 and is estimated to reach $73 billion by 2020. Fintech companies will not only be able to reach the bottom of the pyramid but also provide technology based efficient payment solutions to other businesses.

Top Investments Over the Years

Company	Sector	Amount ($M)	Investors
BillDesk	Online Services (Bill Payments)	150	General Atlantic, Temasek
BankBazaar	Online Services (Consumer Loans)	60	Eight Roads Ventures, Sequoia Capital India, Walden International, Mousse Partners, Amazon
Financial Software & Systems	IT Services (Banking)	57	PremjiInvest
PolicyBazaar	Online Services (Marketplace - Personal Finance - Insurance)	40	Tiger Global, PremjiInvest, Steadview, Ribbit Capital
Eka Software Solutions	Enterprise Software (Financial Commodity Trading)	40	Nexus Venture Partners, Silver Lake, Others
BillDesk	Online Services (Bill Payments)	29	TA Associates
Electronic Payment and Services	IT Services (Banking - ATM Outsourcing, Payments Technology)	25	Apis Partners
Citrus Payment Solutions	Online Services (Payment Gateway)	25	Sequoia Capital India, Ascent Capital, Beenos Partners, Others
Mswipe Technologies	Mobile VAS (Payments)	25	Matrix Partners India, Falcon Edge Capital, Others
Mobikwik	Mobile VAS (Payments - Mobile Wallet)	25	Cisco, Sequoia Capital India, Tree Line Asia Master Fund, Others

Source: Venture Intelligence

Figure 3

Source://economictimes.indiatimes.com/articleshow/52739060.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst/ 05.06.2018

BLOCKCHAIN TECHNOLOGY:

Block chain is a technology that allows for fast, secure and transparent peer-to-peer transfer of digital goods including money and intellectual property. With block chain, which not only distributes a public record of all transactions but confirms a block before each of its individual transactions can be finalized, hence the possibility of fraud is wiped out. Block chain Technology can also be used for Executing contracts, safely buying and selling intellectual property, distributing important medical information and ensuring that voting in elections is incorruptible.It would mean fewer intermediaries, faster transactions, and a diminished need for centralized banking systems.

WHAT IS REQUIRED

Need of Open Banking

Open banking is a connected ecosystem for financial and non-financial services with multiple underlying service providers. The launch of UPI by the National Payments Corporation of India (NPCI) has opened the gates of new challenges for Indian Banking Sector in form of open banking system. UPI will empower payment service providers to create state-of-the-art products to ensure enough flexibility to customers and to give a better banking experience.

Banking on the Cloud

Big Data, block chain, artificial intelligence and Internet of Things will be leveraged using cloud computing. As Demonetization has pushed India towards a cashless society, so banks have to prepare themselves into electronic transactions.

Adoption of Blockchain Technology

To compete with the Fintech companies banks will have to try to become more efficient and agile. Also, to meet the increasing demands of customers, block chain will be one of the enablers for re- designing the entire banking process.

Digital Branch Banking

Artificial intelligence (AI) has the potential to transform both front office and back office operations with its self-improving programs, to make the banks not only efficient but economical as well. Adoption of Artificial intelligence has already been there in top public as well private banks. At ICICI Bank software robots have been deployed in over 200 process functions, which have reduced the response time to customers by up to 60%. Artificial Intelligence has already proven itself in providing seamless differentiated customer experience. Digital branches at SBI are also a milestone in adoption of Artificial Intelligence in Banking.

Banking Mobile Apps

The year 2016 was the year of mobile-first strategy. Indian banks leveraged the increasing adoption of mobile to provide customized offerings through their apps. To keep pace with the huge interference of mobile apps in banking, banks would be required to provide services on a gamut of connected devices and wearable's. Apps, while still widely used, are not the only channel for customer interaction. Today we have smart virtual personal assistants on mobile phones that can engage with customers in a more interactive manner.

Banking Architecture Simplification

To increase the number of bank users, banks need to focus on componentization instead of the traditional monolithic architecture. In other words, complex architecture will be broken up into smaller bite-sized pieces for ease of deployment and upgrade for specific functionalities. In 2017, with GST roll out, it has been indicated that banks will not only have to keep up with the growing expectations of a billion connected customers, but they'll also have to make sure that they are leagues ahead of the emerging competition.

CONCLUSION

Along with the above-mentioned trends and application of the same, below mentioned points are the major growth indicators for Banks:

Nationalism vs. globalism

New economic challenges might push many nations to adopt protectionist trade approaches. This would affect the banking industry's ability to enter or exit markets and constrain ownership structures and repatriation of funds.

State Capitalism

Requirement of involvement of regulatory authorities and involvement of government both the structure and daily operations of the banking industry is inexorably growing.

Despite the obstacles of new regulation, this shift will also generate new business models as resource-limited governments welcome partnerships with institutions able to provide ideas, capital and operational skills.

New Markets are Emerging

By 2030, many markets currently dubbed "emerging" or "growth" markets will reach at maturity. In Asia, Latin America and Africa, a new set of high-growth markets will take their place. Global banks will be able to compete in these markets, but they will need to carefully navigate local needs and regulations.

Changed Demographics

Demographics will drive the future of banking. Forecasts indicate that global inhabitants will surpass 8 billion by 2030, a population that will be ever more elderly. New banking business models will be needed to serve this aging, and increasingly urban, demographic.

Personalized Customer Banking

Customized and personal relationships will further strengthen and this trend is unlikely to change. By 2030, banks will deepen their personal connections with customers via data analysis techniques that might seem fantastic by today's standards.

From the outside, the business model for a single global bank in 2030 might look like hundreds of banks, each with a specific product that suits a discrete customer segment.

Fierce Competition from Payment Banks

Technology is changing the payments segment of the banking industry at an extraordinary rate. Key developments include:

- Competition from non-bank Payment Service Providers (PSPs) offering services such as mobile banking
- Customer demand for quicker, cheaper, anytime/anywhere payments
- More transactions managed through exchanges affected by regulation of over-the-counter derivatives
- Heightened focus on systemic risk reduction and control due to post-crisis regulations

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