

# Financial Services and Digitalisation

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## ABSTRACT

The financial services industry has long been at the forefront of the digital revolution. For more than 30 years, the financial services industry has been a front-runner when it comes to technology. Banks are running online Internet banking platforms, which offer a multitude of non-traditional bank services, including utilities and mobile phone services payments; banks are creating mobile wallets through which money transfers, deposits and withdrawals can be made in the palm of one's hand; banks are even automating credit-making decisions. Historically, the financial sector has been an early adopter of technological tools (such as automation and electronic user devices) because it relies on high-level IT to optimize its business processes and interactions with clients. From automation and electronic user devices such as ATMs to online banking and electronic payments, the financial sector has stayed ahead of the digital curve, benefitting both consumers and corporate alike. Financial globalization has proceeded at a rapid pace in the past few decades. Higher demand for products and solutions, and an increasingly complex economic system mean that financial institutions need to offer a wider array of investment strategies and instruments—over-the-counter derivatives, for example—to a global client base. Catering to clients around the world in turn necessitates the capacity to handle large transaction volumes while maintaining the ability to meet disruptive changes. As a result, the world of business banking has become much more streamlined and efficient, putting control firmly in the hands of the corporate treasurer.

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## 1. Introduction

Digitalization is the process of converting, storing, transferring and processing information in a format understood by computers. Put simply; think about having a document written with pen and paper and then running it through a scanner in order to save it to your computer. By scanning this document, you have digitized it and it can now be stored or used on any computer. Digitalization takes us to a new level of technological integration. Digitalization is a social, economic and business transformation phenomenon, which is powered by technologies that we have at our disposal today. Banks are running online Internet banking platforms, which offer a multitude of non-traditional bank services, including utilities and mobile phone services payments; banks are creating mobile wallets through which money transfers, deposits and withdrawals can be made in the palm of one's hand; banks are even automating credit-making decisions.

## 2. Influencing Factor

Two key factors have influenced this shift, namely the development of the Internet and a dramatic reduction in the cost of technology. Since the widespread adoption of the World Wide Web back in the 1990s, the cost, speed and efficiency of global communication has witnessed an astronomical improvement, and we continue to see new developments every day. The simple email of the initial digital age was only the first step and companies now communicate through a myriad of channels, from computer-to-computer Application Program Interfaces (APIs) to video conferencing and online meetings, in real time and in a more cost efficient manner.

Now, in today's more advanced second digital age, mobile technologies and the development of data science have introduced unprecedented levels of connectivity between personal devices and banking applications, systems and platforms, changing society profoundly and consequently the companies that power the economy.

## 3. Service Models

The combination of these new technologies has had a significant impact on company infrastructure, most notably through fast-emerging connected solutions such as cloud computing. In today's modern world, the mainframe virtualization of the 1970s has been replaced by powerful shared server infrastructures that revolutionize back office and IT functionality, allowing companies to share hardware and software in order to achieve economies of scale. There are three fundamental service models that help drive this today:

- Infrastructure as a Service (IAAS), which provides virtual computing resources including servers, storage and networking over the Internet;
- Platform as a Service (PAAS), which allows corporate to roll out applications, tools and internal services through the cloud; and
- Software as a Service (SAAS), which enables companies to rent the usage of critical software solutions through the cloud.

Today a vast percentage of all software solutions are developed in the cloud, changing the face of the financial

services industry for good by providing a host of benefits and solutions to companies of all sizes.

#### 4. The Impact of Connected Technology on the Corporate Treasury

When it comes to the corporate treasury department, the onset of digital and mobile technology has many key benefits. In its most basic form, documents are now easily transferrable so there is no need for physical hard copies that need to be carried around, copied or faxed.

Today, smart phones and tablets offer much the same functionality and accessibility as the average office PC, making mobile technology extremely convenient and extremely connected to the workplace. This in turn reduces the typical constraints implied by the office working environment, allowing corporate treasurers and finance executives to complete transactions on the move from anywhere at any time. This frees up time to focus on innovation and improving efficiencies elsewhere in the department.

And once treasury executives actually reach the office, these new technological advancements continue to make the function more effective and efficient. The majority of devices and systems are now connected, enabling the finance team to produce more accurate accounting reports, improve internal transparency, access financing solutions and mitigate risk. And the fact that data can now be cut into smaller, more digestible pieces and undergo in-depth analysis is making the corporate world increasingly knowledgeable and intelligent about their businesses.

Finally, the connectivity between corporate and banking systems has also reshaped the cash management landscape. Not only can the finance department now source cost savings across company expenditure online and utilize virtual corporate cards, they can also negotiate deals, issue electronic invoices, make transfers, accept cashless payments and mitigate the risks associated with currency volatility in real time. Companies can also refinance their account receivables seamlessly, improving liquidity management and freeing up working capital in the process, thereby improving organizational profitability and customer service standards.

Rightly, as a result of this greater corporate dependency on digital technology, justifiable concerns are being raised about cyber security, especially with regards to connected devices and the number of points of entry. However, the financial services industry has been working to overcome these challenges for some time now and security has always been a primary objective for the world's leading institutions. Both corporations and banks benefit strongly from cooperation in this area and increasingly the alignment of their interests forms an effective defense against cyber-attacks.

#### 5. The Financial Services Industry of the Future

As the world moves towards an increasingly digital age, the added convenience and interconnectivity between devices, systems and platforms is empowering the finance function to the level of sophistication never seen before. In recent years,

the treasury has become a control centre where accurate decisions and actions are taken in real time, reducing the risk of errors and delay, and bringing all the intelligence necessary for the right decisions to be made. As such, it is essential that corporate treasurers choose a banking partner that provides the tools and connectivity that will enable them to fully leverage the developments of the digital revolution.

#### 6. Benefits

All financial services can now experience similar benefits, particularly by embracing these key trends on the road to digitalization:

**Customer Engagement:** It's important to engage customers across numerous channels, ensuring workforces are engaged and have all the information they need at any time. Only then can you break down silos and enable smarter collaboration between teams, colleagues, and business networks.

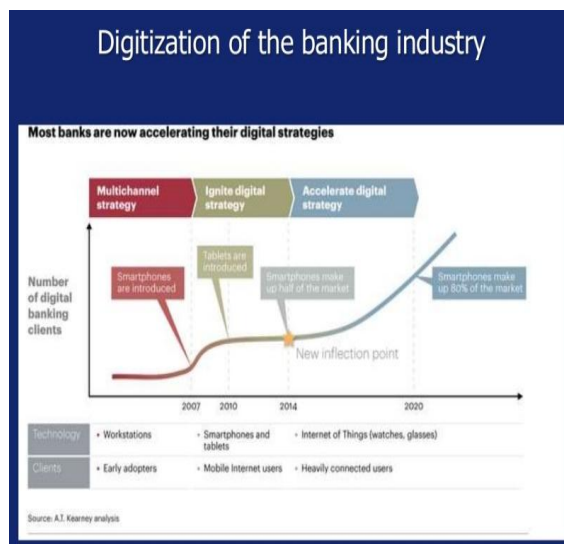
**Smarter data usage:** Organization becomes increasingly digital, there has become a greater need to ensure that data is used in a way that makes it easier to gain real-time access to information. We are able to do things faster, simpler, and in a more agile manner.

**Adding Value:** Banks have previously been able to sit back and wait for customers to come to them. But all that is changing, with the focus now shifting from transaction execution and product selling to adding value – which requires a completely different mindset and business model.

The way in which governments, businesses and consumers adopt and incorporate these technologies is the essence of digitalization – it enable us to seamlessly weave together processes, systems, customers, partners and employees and become the ultimate connected business. The Apple watch is an example of digitalization at its best, where technology has taken an ordinary watch and transformed it into something with phone, messaging and Internet capabilities.

The optimists argue that digitalization will impact economic growth positively; calling it 'the second machine age' and that it will 'accelerate the rate of growth of innovations'. The pessimists, on the other hand, say 'the economy is unlikely to benefit from technological progress that is driven by digitalization'. The impact of digitalization on economic growth is still a subject of debate. However, signs of the potential impact of technology are starting to be visible. For example, productivity growth derived from technological development could become the main driver of improved living standards in the long run and digitalization is at the centre of bringing together these technological innovations to transform service delivery.

Let us focus on two major developments spurred by digitalization. The first is mobile money, which is part of the broader financial services that also include mobile banking.



The mobile money platform enables the conversion of fiat currency so that it can be stored, accessed and transacted electronically. Mobile money can, therefore, be considered as an electronic wallet service, that lets users store, send and receive money using their mobile phone. Since its introduction in 2009, the user-base of mobile money services has grown and surpassed that of other forms of formal financial services, thus contributing to financial inclusion.

## 7. Key Issues

The beneficiaries can subsequently redeem the virtual currencies as foreign fiat money. This would efficiently substitute the conventional payments, clearing and settlement process, which usually involves multiple intermediaries, including central banks and correspondent banks. This development provides an opportunity to make cross-border payments faster, more traceable (transparent) and easier to use. It, however, still faces some challenges that need to be overcome.

In terms of the evolving regulatory environment around digitalization, four key issues need to be kept in mind. **First**, in this rapidly changing environment, authorities should be pro-technology, but remain technology neutral. Technology neutrality means that regulation designed to ensure consumer protection and financial stability should describe the result to be achieved, but should allow market players to adopt whatever technology is most appropriate to achieve the result.

**Second**, financial inclusion and access should be promoted – regulation will need to be flexible and broad-based to enable a balance between ensuring financial stability and fostering financial inclusion. Also, certain financial services are regarded as necessities and, therefore, access and inclusivity should be paramount. Preserving the stability and reliability of financial services should be one of the major priorities. As we have seen, the spectra of financial services is now offering digital financial solutions at a fast growing rate, particularly with mobile money. Its growth, outreach and interconnectivity with the financial system imply that its functionality could become paramount to financial stability.

The capacity of a regulator to deal with financial stability issues is, therefore, key to regulation of mobile money services and is an important reason why the global practice has seen Central Banks enter into Memoranda of Understanding (MoU) with regulators of MNOs. It is in this regard that the Bank of Uganda is already undertaking mobile money regulation.

The possibility of having a sole micro-finance regulator for mobile money would seem to understate its projected effect at the systemic level, as a new micro-finance regulator would suffer regulatory lag. This would arise from the fact that whilst financial technology and digitalization will continuously develop, evolve and attract demand within the financial system, the new regulator would have to initially build the capacity and frameworks for both micro prudential supervision and macro prudential analysis, capacity that is already existent and has been developed for sometime at the central bank.

**Third**, while innovation will increase competition in provision of financial services, regulation must apply to all types of market players, banks or non-banks, to refrain from pushing the market towards a particular structure.

As a country's mobile money market develops, attention should shift from facilitating investments to ensuring appropriate competition, aligning competition between banks and non - banks to enhance financial inclusion and making the regulatory frameworks of both sectors compatible.

**Last**, consumer protection, security and integrity – from a regulatory and supervisory perspective, consumer data protection and legitimate privacy should remain critical as a pre-condition for any financial services, especially given the vulnerability of customers and the common lack of financial education and awareness.

Trust and consumer confidence is fundamental to the successful adoption of financial innovations. Trust in digital financial services could come under threat from a number of challenges including agent fraud, system failure, weak data security and privacy, and questionable safety of customer funds, particularly where non-bank players may be involved.

## 8. Conclusion

Digital change is spreading to further areas of social activities. New business models and, more and more often, disruptive changes open up great opportunities. It will be important for solution providers to factor in the currently low levels of use of digital financial services among low income households and small businesses and understand the key drivers of change while convincing the target consumers to switch from cash-based operating models. At every nodal point of the value chain, the solutions will have to be convenient, adding tangible, easily demonstrated value while also being secure.

Computerization of banking has received high importance in recent years due to technological advancement that are

taking place in the financial systems world over. Due to market competition in Indian banking industry, the pattern of banking business is changing phenomenally. Moreover banks have to provide a world class services to the customer to their door. Due to this type of quality services and facilities, income is increasing day to day. The opportunity areas for the Indian banks, if pursued with caution and confidence, can take us a step ahead in global competitiveness. The globalization has exposed the global competition. This is a great challenges as well as an opportunity. Information Technology innovations in the last few years have changed the landscape of banks in India. Today, IT seems to be the prime mover of all banking transactions.