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# Emerging Trends in Financial Services Sector and its Implications

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**ABSTRACT**
India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. As emerging markets demand more financial flexibility, banks and microfinance institutions will need to adapt quickly to survive. Digital financial services are becoming the norm. Many emerging trends in financial services sector like digital payment, security, robo-trading, artificial intelligence, is helping financial institutions in providing innovating solutions.

***Keywords:*** *Financial Services, Trends, Digitalisation*

## INTRODUCTION

The study shows tremendous progress in access to financial services overall, the percentage of savers in emerging markets has actually declined in recent years. Financial services providers need to do a better job of reaching customers with savings products—and promoting a culture around saving. India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. As emerging markets demand more financial flexibility, banks and microfinance institutions will need to adapt quickly to survive. Digital financial services are becoming the norm. Many emerging trends in financial services sector like digital payment, security, robo-trading, artificial intelligence, is helping financial institutions in providing innovating solutions.

## Objectives

The present study has been carried out with the following objectives:

1. To study the conceptual framework of emerging trends in the financial services
2. To learn various financial services provided by the finance sector with reference to India
3. The study focuses on managerial implications those financial services.

## Emerging trends in financial services sector and its implication

There are 6 core functions which are witnessing emerging trends in financial services sector are:

- Payments
- Market Provisioning
- Investment Management
- Insurance
- Deposits and lending
- Capital Raising

## Payments:

Within payment there are two cluster of innovation that is Cashless world and New Emerging payment rails. Key emerging trends include mobile payments, streamlined payments, integrated billing, next generation security, mobile money, cryptographic protocols and p2p transfers. New consumer functionalities are being built on existing payment systems and will result in meaningful changes in customer behavior. Also the greatest potential for crypto currencies may be to radically streamline the transfer of value, rather than as store of value.

## Implications for Financial Institutions

- Financial institutions may lose control over their customers' transaction experience as payments become more integrated
- With reduced visibility, becoming the default card among specific customer segments will become critical
- Winning issuers will be able to gain visibility into more of customers' spending patterns, build more holistic understanding of customers, and create more competitive offerings
- As more efficient alternative rails are adopted, the role of traditional intermediaries as a trusted party may diminish
- Financial institutions may face a new set of risks (e.g., reputation, security) and regulatory issues as they participate in new rails
- Applications of these technologies can expand beyond money transfer to modernize other financial infrastructures

## Market Provisioning:

Within market provisioning, the two cluster of innovation are Smarter, Faster Machines and New market platforms. The major emerging trends include machine accessible data, artificial intelligence / machine learning, big data, fixed income platform, funds / fund of funds, private equity / venture capital shares, private company shares and commodities & derivative contracts. As the popularity of high frequency trading declines, the focus of algorithmic trading may shift to smarter, faster response to real-life events. And new information platforms are improving connectivity among market constituents, making the markets more liquid, accessible, and efficient.

## Implications for Financial Institutions

- The impacts of event-driven algorithmic trading on liquidity, spread and systemic stability are unclear
- With end-to-end trading activities automated, even small errors in data integrity, trade strategy, and execution will lead to large impacts
- Regulators have the potential to significantly alter the course of developments in this area

- As traditional differentiators among intermediaries (e.g., ability to discover counterparty) become commoditized, the importance of advisory services will increase
- Information platforms will evolve the standards for best-execution from a best-efforts basis to more quantifiable and comparable metrics

**Capital Raising:**
The cluster of innovation among capital raising is Crowd Funding. The major trends among crowd funding includes empowered angel investors and alternative adjudication. Crowd funding platforms are widening access to capital raising activities, making the overall ecosystem richer.

**Implications for Financial Institutions**
- Access to more diverse funding options allow new companies to grow at a quicker pace and shorten the average time between early funding stages
- Distribution platforms create a venue for investors to tailor their investment portfolio across dimensions beyond financial return
- As the barriers to enter the asset class fall, it becomes ever more important for traditional intermediaries' profitability to find undiscovered "start" investments

**Investment Management:**
Within investment management, the two major cluster of innovation are Empowered Investors and Process Externalization. The major trends include social trading, automated advice & wealth management, retail algorithmic trading, process-as-a service, advanced analytics, natural language and capability sharing. Robo-advisors are improving accessibility to sophisticated financial management and creating margin pressure, forcing traditional advisors to evolve. Also, the scope of externalizable processes is expanding, giving financial institutions access to the new levels of efficiency and sophistication.

**Implications for Financial Institutions**
- New entrants will place pressure on margins and intensify competition among traditional players in more specialized segments
- As more advisory functions become automated, distributing wealth products via proprietary advisory channels will become less effective
- As new entrants widen the access for mass customers, they will compete for customers' traditional savings deposits
- The ability to access sophisticated capabilities without large infrastructure investments flattens the playing field for mid-sized institutions
- Organizational agility will become critical to sustain competitiveness as high-value capabilities are continued to be commoditized
- Externalization of capabilities may result in workforce skill loss by preventing the development of a holistic view of operations

**Insurance:**
Within insurance, there are two clusters of innovation which are Insurance Disaggregation and Connected Insurance. The major trends in industry includes disaggregated distribution, sharing economy, 3rd party capital, smarter & cheaper sensors, internet-of-things, wearables, standardized platforms and self-driving cars. Emergence of online insurance marketplaces and homogenisation of risks will force big changes in insurers' strategies. And, Ubiquity of connected devices will enable insurers to highly personalise insurance and proactively manage clients' risks.

**Implications for Financial Institutions**
- In an increasingly commoditised environment, the risks of customers being more fickle will increase and creating loyalty through innovation will become more important
- Insurers' ability to benchmark against competitors will become more important as customers gain ability to comparison-shop
- With increased margin pressure, insurers will need to increase their size by expanding either scope or scale
- As customer relationships evolve from short-term product-based to long-term advisory, capturing customers early on becomes critical
- As insurers become a hub for customer data, their strategic value within full-service financial institutions will grow
- Forming partnerships with data providers, device manufacturers and other ecosystem participants will be critical to enable connected insurance

**Deposits and Lending:**
The clusters of innovation in this sector are Alternate lending and Shifting Customer Preferences. The key market trends include P2P lending, lean & automated processes, alternative adjudication, virtual banking 2.0, banking as platform (API) and evolution of mobile banking.New entrants will make meeting customer demands more important, creating an imperative for banks to reconsider their roles. Also, new lending platforms are transforming credit evaluation and loan origination as well as opening up consumer lending to nontraditional sources of capital.

**Implications for Financial Institutions**
- Intensified competition will narrow spread between deposits and loans, decreasing financial institutions' profitability
- As savers turn to alternative platforms, traditional deposits and investment products will be eroded
- Distribution of customers' credit portfolio over a large number of alternative platforms may make it difficult to measure customer's creditworthiness
- Financial products will increasingly be offered on a stand-alone basis limiting incumbents' ability to competitively cross-subsidize
- Financial institutions' ability to collaborate with non-traditional players and other institutions will become essential
- Financial institutions will need to choose where they will specialize and where they will leverage external partners (e.g., product manufacturing vs. creation of customer experience

Innovation in financial services is deliberate and predictable; incumbent players are most likely to be attacked where the greatest sources of customer friction meet the largest profit pools. Innovations are having the greatest impact where they employ business models that are platform based, data intensive, and capital light. The most imminent effects of disruption will be felt in the banking sector; however, the greatest impact of disruption is likely to be felt in the insurance sector. Incumbent institutions will employ parallel strategies; aggressively competing with new entrants while also leveraging legacy assets to provide those same new entrants with infrastructure and access to services. Collaboration between regulators, incumbents and new entrants will be required to understand how new innovations alter the risk profile of the industry – positively and negatively. Disruption will not be a one-time event, rather a continuous pressure to innovate that will shape customer behaviours, business models, and the long-term structure of the financial services industry.

**Conclusion**

Digital solutions to maximize reach and efficiency are necessary for any financial institution to remain viable, but they don't substitute for personal, trust-based relationships. Even customers are waiting for a new generation of financial service providers—in short, they're waiting for banking organizations that are undergoing tech transformation while continuing to provide responsible financial services. In a global financial landscape that is constantly changing and innovating, the financial service sector is aslo rising to the challenge of providing convenient, flexible products that allow the clients to take control of their financial futures.

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