2. FINANCIAL SERVICE: PAST AND FUTURE

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ABSTRACT

The financial service industry has been undergoing significant change in recent years. This paper analyzes some key developments affecting the industry and examines some important issues facing the industry and its regulators. Changes discussed include the way services are provided, the instruments used to provide services, and the nature of the financial service providers. Factors driving these changes include technological developments, the changing role of competition, and demographically led changes in household portfolios

Key words: Finance, Services, technological development

I.INTRODUCTION

The history of money is wrapped up in sex, religion, and politics, those things we are told not to talk about. After all, these are the themes that rule our lives, and money is at the heart of all three. To put this in context we need to begin at the beginning, as that is a very good place to start, and talk about the origins of humans, which is what I am going to cover in detail in this article. In fact, the origins of money reflect the origins of humans. As you will see, there have been three great revolutions in human history as we formed communities, then civilization and industry. We are currently living through a fourth great revolution in humankind, and these revolutions fundamentally change the way we live. Equally important is the fact that each evolution of humankind creates a revolution in monetary and value exchange. That is why it is important to reflect on the past to understand the present and forecast the future, especially as we are living through a fourth revolution in humanity and trade, and about to enter a fifth.

II. Key factors driving financial changes in the financial service industry

There are numerous factors which drives financial services sectors: - technological developments, the changing role of competition in this sector, and demographically led changes in household portfolios.

A factor may have been the necessary condition for a development to occur, but it may not have been sufficient by itself to bring about the outcome. For example, certain technological changes may have facilitated specific outcomes without being the sole causal factor.

A) Technological change

Changing technology has permitted them to offer new services or products or to improve existing ones and hence to satisfy more fully and efficiently customers' demands for the financial service functions. Moreover, technological change is likely to continue to facilitate significant future changes in the nature of services provided and the way they are delivered.

B) Changing nature of competition in the financial services sector

Another important factor driving change in the financial services sector has been the changing nature of competition, most notably the cross border movement of FSPs and the growth of non-regulated entities. While these types of expansion were fundamentally driven by perceived opportunities for profit (themselves, in part, consequences of technical innovations), they were also facilitated by government actions to promote greater competition within the financial services sector.

C) Changes in household demographic trends

Demographic developments have been largely responsible for the gradual change in the desired asset-liability structure of household portfolios. This change has implications for the areas of growth in the financial sector. As the population of North America, Western Europe, and Japan has aged, and as income levels and wealth have increased, there has been a slow but steady shift away from credit products (such as consumer loans and home mortgages) to wealth-management products (such as pension funds and mutual funds). Moreover, the portfolio shift from deposits to mutual funds has been intensified by the movement to a low-inflation, low-interest rate environment that has caused many savers to search for higher rates of return than are typically offered by deposits.

III. Challenges facing the financial services industry

The pace and scope of change currently facing the providers of financial services raise a number of challenges. How can FSPs best meet their customers' existing demands for financial services and products and create new and profitable ways of carrying out the underlying financial functions needed by households and businesses? How important is a provider's size in domestic and foreign markets? What is the best way to organize: provide a wide range of products; focus on a few profitable products; produce all products internally; purchase products and services from others but provide the interface with customers? Will governments mandate the provision of certain services or products, or the delivery mechanisms associated with these products? Some of these challenges were noted in the previous section of this paper. This section focuses on two of the most important— how large does an FSP have to be in order to be successful, and how does it determine the range of services and products to provide?

IV. Emerging Trends in Financial Services Sector

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. Many emerging trends in financial services sector like digital payment, security, robo-trading, artificial intelligence, is helping financial institutions in providing innovating solutions.

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

1. Payments
2. Market Provisioning
3. Investment Management
4. Insurance

5. Deposits and lending
6. Capital Raising

[1] 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.

[2] 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.

[3] 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.

[4] 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 externalisable processes is expanding, giving financial institutions access to the new levels of efficiency and sophistication

[5] 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 homogenization of risks will force big changes in insurers' strategies. And, Ubiquity of connected devices will enable insurers to highly personalize insurance and proactively manage clients' risks.

[6] 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

Determining the range of financial services and products FSPs are also going to have to make some hard choices about the range of products they offer to customers. There are many types of financial products that are standard or commoditized, such as term deposits, consumer loans, and term life insurance. There is little or nothing to distinguish between the product of one firm and that of another, especially when the customer is protected by a deposit insurance or comparable scheme. Pricing becomes virtually the sole characteristic distinguishing the various offerings. In contrast to the standard products are the customized products that depend on knowledge or relationships. These products include portfolio management, advice on wealth management, complex life insurance products, large-value loans to customers based on a close knowledge of their business as well as ongoing monitoring of developments, complex types of derivatives, and merger and acquisition advice. These are high-margin lines of business where reputation plays an important role

V. Challenges in the regulation of the financial services sector

The factors driving change in the financial services sector also have important implications for the way in which the sector is regulated. Just as financial institutions are trying to develop their strategic directions, policymakers are grappling with the nature and type of regulation that would function best in the evolving financial landscape, with financial institutions developing into conglomerates, non-regulated firms competing increasingly with regulated financial firms, and international operations becoming ever more important for large financial institutions. From a broader perspective, policymakers also have to worry about such issues as competition, the appropriateness of commercial-financial linkages, and the relative reliance to be placed on disclosure and market discipline as opposed to direct supervision. This section examines several of the key challenges facing policymakers and regulators: the appropriate use of disclosure and market discipline versus direct supervision; functional regulation; the impact of change on the supervisory process; the possibility of regulated FSPs providing non-regulated services and possible changes in the organizational structures of regulated FSPs; the cross-border provision of financial services; and changes to the legislative framework governing FSPs. Before turning to these issues, it will be useful to review briefly the reasons why governments have chosen to apply solvency regulation to some types of financial institutions.

Another important motivation for governments to regulate certain FSPs is their concern about the consequences that the failure of a major entity could have for a large number of borrowers and hence for the economy as a whole, a form of systemic concern. This may be a particularly important consideration if there are many borrowers who do not have readily available alternative sources of funds that they could turn to following the failure of a large FSP

VI. What future will look like?

Well it will not be money and probably will not even be transactions of data, but some other structure. I have alluded to this other structure many times already as it is quite clear that, in the future, money disappears. You never see Luke Skywalker or Captain Kirk pay for anything in the future, and that is because money has lost its meaning.

Money is no longer a meaningful system in the fifth age of man. Having digitalized money in the fourth age, it just became a universal credit and debit system. Digits on the network recording our taking and giving; our living and earning; our work and pleasure.

VII. Conclusion

Countries like the United States tend to make changes less frequently; consequently, changes tend to be larger and potentially more disruptive by being able to respond more quickly than countries where legislative changes occur infrequently. In addition, one is more likely to see innovations in the financial sector driven solely in response to legislative or other regulatory impediments in countries like the United States than in countries where the regulatory structure can be changed more frequently and kept more in tune with market realities

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