NEW HORIZONS IN BANKING AND FINANCIAL SERVICES ACROSS THE WORLD DUE TO DIGITALIZATION

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ABSTRACT:

The world is digitizing and the world is digitizing because we're seeking low-friction and immediacy we want immediate responses. We want stronger commerce connections that can scale up more rapidly. In the mid-80s we started to look at ways to extend the platform of banking and make it self-service. We gradually improve on it and that's what's happened in banking. Over the next 20 or 30 years will be blockchain based systems combined with artificial intelligence. Financial services landscape in the future well one of the interesting aspects is our core bank account artifact that basic day-to-day, bank account about two and a half three billion people will come into the financial services space between 2010 and 2030. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to section of disadvantaged low income segments of society.

Keywords: *Digitizing, blockchain, banking, financial services, artificial intelligence.*

Introduction:

When you look at what's experiencing in financial services, broadly when we come across at isolated technologies like blockchain or the smartphone, for instance we might think of these as you know a data solution for the bank. We might think of mobile like a channel for the bank, but if you step back from those specific technologies and you look at what's happening in the world, something is shifting. The world is digitizing and the world is digitizing because we're seeking low-friction and immediacy we want immediate responses. We want stronger commerce connections that can scale up more rapidly. These are the systems that are changing globally, so within that framework you can't expect banking and financial services to stay the same as it has been, because ultimately it has to shift. So, when we look at these phases of development of banking, if you overlay technology on this you understand that it's not just about inserting technology into banking. There's a larger shift here part of the shift is around trust and the utility of the bank, so when we look at the bank 1.0 world the foundational elements of banking going back to the Medicis in Florence and Firenze a and places, like that when you look at that banking was very simple you would go to the bank and we trusted the bank because that was the safe place to store the money. But transactionally as our demands on the banking system increased we needed to put technology in place to keep up with the demands of utility this is the first Bank mainframe called ERMA-Electronic Recording Machine for Accounting.

During 1980's and 1990's

In the mid-80s we started to look at ways to extend the platform of banking and make it self-service. We had the internet come along in the 90s but this really started with the introduction of the ATM machine self-service banking. Now what's happening is we're trying to say we're extending the bank as a platform but our reliance on the bank as a building, the bank as a place was becoming less and less important because now we're saying you can bank 24/7 and then when bank 3.0 came along we extended that analogy to say you could bank anywhere anytime and this mobile. If you step back from this and say well you know this was just another channel to extend banking then you don't understand the implications here because, what it was doing was saying banking can be done wherever you are you don't need the bank. But what was key was the core utility of the bank was being surfaced through this technology and so the trust was changing from being about a place you could go where your money was safe to now a set of bank platform technologies that would enable you to do banking.

Today, built in China on top of Alibaba system to capture those deposits from merchants and consumers working on La Barbara and Taobao putting that aside and giving them some high-yield interest rate we classify this in the West as a money market fund. Jack Ma doesn't see it as that they that's why they called it you a bow hidden treasures they saw it as a behavioral model for savings a hundred and eighty billion dollars assets under management. No branches, no humans involved in the sale of that product. Now in the past you may have heard an argument that we need bank branches or we need face-to-face interaction, because how else are we going to engage customers to take deposits, to take assets and yet the most successful deposit product in the well. Today doesn't involve humans it's completely automated and a leap a ant financial the parent company of a leap a in China has a higher trust rating. In china than most of the banks there why it could be argued that's because of utility and when you see where we're going with this.

Digitalization and banking:

We gradually improve on it and that's what's happened in banking. Today, we take in technologies like the mainframe the ATM machine, Internet, mobile and we've iterated on the traditional banking model branch banking. Investment advisors we've iterated on this so when the iPhone came along instead of saying there's an opportunity to completely rethink the way financial services fits in people's lives we took the primary artifact a bank account and we stuck a representation of that in the phone this is what we call design by analogy. So these are the two competing design schools design first principles design start from scratch or iterate on the existing model by incorporating technology. Now, remember historically speaking the biggest leaps and the biggest changes in the world have occurred through first principles thinking.

Less than 5% of the banks in the world today off a complete digital on boarding of customers. so we're already starting to see the world diverge around this very simple engagement principle how you acquire customers in the digital age so if you're going to design value stores. Today what's happening is you're not getting people, just look at digital on boarding you're seeing from the perspective of investment and savings, looking at behavioral mechanisms behind savings and investing and not saying you need a minimum AUM to qualify as a customer to get into this account. So this is how one of the first banks in the world attacked the use of Amazon Alexa with voice the capital one skill for Amazon Alexa makes credit card payments easier than ever after saying Alexa open Capital One and speaking. Capital one skill card in your Alexa app once the payment has been made confirm.

New fin tech startups around the world this is of course 10 cent We Chat now in China, 98% of mobile payments go through to technology platforms and financials hourly pay and $0.10. WeChat not through the traditional banks or traditional payments networks and this has happened in the space of just a few years last year 12 trillion dollars, in mobile payments what that means is this year China's mobile payments transaction traffic will pass all of the card traffic of the world. There'll be more mobile payments globally done this year than all the plastic card payments done across traditional means this is a pretty big shift, but we chat they didn't try to create a credit card or debit card that you signed up for at a branch and use a traditional point-of-sale network they just used a simple QR code first principles thinking around payments it wasn't a payment product it was enabling the utility of a payment experience. When uber was faced with the challenges of growth in American cities in cities like New York and San Francisco and Chicago and Los Angeles they couldn't recruit drivers, fast enough and they found out that 30% of the drivers who started the application process in the app got to a single field in the app and abandoned the driver signup process. That field was the debit card because these were drivers who'd driven yellow taxicabs and had never had a bank account they'd been paid in cash so to enable them to grow uber faster they had to issue drivers with the bank account. Overnight uber became one of the third largest acquirers of small business bank accounts in the United States.

Why no human will be able to keep up with an AI when it comes to driving same analogy in financial services is the more data we have the better advice we can give you and no human will be able to process the same amount of data as an artificial intelligence.So, when you look at the problem of customer acquisition and relationship and engagement of customers what becomes clear, is one of our biggest problems in financial services is the way we identify customers.KYC kill your customers with paperwork right the reason in Europe. we go to these passport stations at airports and so forth and the reason we use biometrics and facial recognition these days is we know, something simple is that some guys sitting behind a window looking at your passport can you take your glasses off please. we know that a machine is better at doing that job than a human 15 or 20 times more accurate, than a human in identifying your face comparing that with a photograph or facial recognition, 20 times better than a human.

Future ahead:

Over the next 20 or 30 years will be blockchain based systems combined with artificial intelligence, we need to code laws and regulations into computer code because there's no longer a process that a human is involved in it's now relegated to a machine and this is where when you start thinking about first principles thinking in financial services. This is where regulation is going to have to massively change regulators.

So we look at the next 20 to 30 years and the building blocks of financial services, what is clear is that there's some big changes taking place you know when China is looking at this problem, combined with these new payment experiences networks identity now has just become as simple as facial recognition with a smile you actually don't have to smile but it's it helps for the experience and psychology side of this. So once you understand that someone's identity is based on what they do and how they look or their biometric features, then collecting something like their date of birth or their address or their mother's maiden name is antiquated, because it really has no impact on your ability to keep that identity safe in the system.

Digitalization and banking:

Financial services landscape in the future well one of the interesting aspects is our core bank account artifact that basic day-to-day, bank account about two and a half three billion people will come into the financial services space between 2010 and 2030. 95 percent of those will have never visited a bank branch they'll get access to a basic value store on a mobile phone already since the creation of the smartphone 1.4 billion people have come into the financial services ecosystem without ever visiting a bank branch 800 million alone in India and in China it's similar numbers. so the bank account itself in the next decade will be considered an artifact that's in the cloud or on your phone not a physical artifact you got from a bank that the way we think of a basic bank account of value store will have changed by 2025 the daily interactions with financial services on a digital basis more people will use digital access to financial services on a daily basis that will visit all of the branches and all of the human advisers in the world on an annual.

Conclusion:

so if you want to grow your business in the future it has to be based on digital on boarding digital relationships and digital engagement you cannot scale your business of the future based on humans and from an advice perspective by 2025 it's not about taking technology like artificial intelligence blockchain the smartphone and adding it in to your existing business the only way you survive this transition intact is if you're prepared to start all over again rethinking the role of your business in your customers lives based on the fact that you'll always be there embedded in the world around them that's first principles thinking of financial services.

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