

DIGITAL TRANSFORMATION IN FINANCE: CHALLENGES AND FUTURE IN INDIA

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Abstract:

Digitalisation is the future, we cannot imagine our single day without technology so how can we imagine business survival without internet and technology. From waking up to sleeping at night our whole day is spent using technology. So we can't imagine a business survival without opting for digitalisation.

In order to survive in the competitive and dynamic an entity needs to change its way of doing operations. Artificial Intelligence and Automation are the future so the entity should adapt itself not only to survive but to compete successfully. Finance sector is not an exclusion it should also pace itself with the technology so as to run its operation successfully and cost effectively.

Key words: Digital Transformation, Customer Data Platform, Internet of Things

1. Introduction:

The year 2020 evidence the greatest pandemic of the century. Lakhs of people were died because of the pandemic and millions of people were suffering the pandemic. It is not wrong to say that during this difficult time it was only internet that was connecting people and provides opportunity to work conveniently. The office works, education, fitness hubs, etc. were not even effected even for a single day. All credit goes to internet.

It gives the opportunity to everyone even to those who lost their jobs. People were showcasing their talents and were earning from their talents. There were lot of challenges during pandemic but internet revolution was on peak and it changes the way of doing the work. Even our smallest work was overtaken by the internet. We can't even imagine a single day without the use of internet or without technology.

The same way financial market is also not an exception. The way of investing in market is totally changes from the way it is used to done in yesteryears. In today's time it is quite easy to start investing in market. All you need to have a smartphone and an internet connection. Developers are developing so user friendly apps that they even forecast and organise webinars from time to time so as to spread awareness among its members and that too at very nominal charges.

2. Literature Review:

A study conducted on technological advancement suggested that "the macro-environmental factors and technology trends that are giving rise to this innovation, and identified some of the key research (technical) challenges that need to be overcome if we want to realize the full potential of the innovation opportunities." [1]

A study conducted on digital financial transformation concluded that "supervision of AI techniques by humans are still necessary while there is no doubt about the usefulness and utility of the digital

tools as well as the exciting new possibilities that it brings in terms of financial transformation, finding ways to stay connected with a human centric approach cannot be lost sight of.” [2] A study conducted on digital transformation in finance concluded that “these changes may purport to revolutionize the way an organization manages its financial function and the associated processes, internal controls and financial reporting.” [3]

Another study on digital transformation in finance suggested that “every business organization must make use of this power and capabilities to uplift new technologies that can pick up the pace with the digital journey boosting organizational culture and supply flawless customer experiences.” [4]

3. Research Objective:

The primary objective of this study is to understand the need, trends, impact and challenges of digital transformation in finance.

Research Methodology:

This study is conceptual in nature and based on secondary data and the information is based on website and authentic sources.

Need for digital transformation in finance:

Traditional method of doing the things are gone long back. It is assumed in many ways that financial industries run on traditional patterns but it is one of the fastest moving sector and among those sectors that is gaining much from digitalisation. In order to survive in the business, it is important to pace up with the coming changes and be proactive in the approach. The present age is of the digitisation and finance is not an exclusion. Digital transformation is the need of an hour. Reason why it is needed are:

1. **Maximum benefit from data:** in finance data related to customer is not less than a goldmine of customer information. Without the interpretation and analysis of the data it is just a meaningless data. Digitalisation works as a bridge between raw data and intelligence and that can be useful in almost everything from crafting a strategy to creating better relation with customers.
2. **Promoting the products:** financial services product can get huge benefits from digitalisation. Company can promote its product or can advertise products awareness camps through digitalisation in a cost effective range. Through the digitalisation product can reach a large audience and company can get benefit. (through the help of digitalisation financial sectors get aid in developing or growing)
3. **Internal IT upgradation:** digitalisation offers the opportunity for financial sectors to upgrade their internal system that are efficient and comprehensive. Because of digitalisation it is possible to tailored the system as per individual needs.
4. **Customer interactions:** there was a time when finance industry were among those industries that were most misinterpreted because of its technicalities and jargons that were beyond understanding of a layman. Digitalisation has provided the opportunity of company in improving interaction with customers. From customer service bots to clear and concise apps and social adds. with the help of digitalisation the company has able to reach out a broader range of customers, with an easy language that customers are understanding easily. As a result of which company is able to develop an ongoing relationship with customers which is helping in maintaining a much higher value of business.

Trends in digital transformation

1. **Customer data platforms:** In this era of digitalisation data is collected everywhere. In order to survive in the business, companies need to access a lot of data related to customers. Whether the customers are purchasing the products or are just interacting with the company regarding the products or services. A company is accessing all sorts of information from them. Every business is doing this whether its small or large. Only difference that arise how data is applied so as to gain knowledge about the desire and behaviour of the customers. Interpreting data and taking decisions is not an easy task as it may appear so Customer data platform(CDP) makes this process easier and convenient.

A customer data platform (CDP) is a single source of customer data that can be used by the company to create more personalised and engaging markets campaigns for the customers. It might appear that CDPs are used by only marketing department but this is not so. CDPs can be used by the finance and IT departments to make quick decision about services, products and other investment of companies.

2. **Internet of Things (IOTs):** It refers to the rapid growing network of connected objects or devices that collects and exchange data by using embedded sensors, software and other technologies over internet. The connected devices or objects range from household appliances to sophisticated industrial tools.

Finance sector from IOTs in following ways:

- a. IOTs in financial sectors is used to collect and analyse data to generate meaningful information to meet specific needs.
- b. IOTs simplifies day to day operations by reducing the requirement of human labour. It is also used to solve financial problems such as analysis of saving and spending pattern, balance sheet appraisal and financial planning.
- c. These devices can also be used to improve employee productivity and keep them connected.
- d. It provides strong data protection with options of multiple authentication.
- e. It also helps in improving risk management by collecting real time data on customer assets.

1. **Multi Cloud networks:** it refers to the distribution of software and workloads within an organisation using one or two private or public clouds. This covid19 situation has created a push towards the adoption of multi cloud architecture to reduce business continuity risks. This is because company desire for easy ways in managing modern working model, that includes a greater emphasis on enabling remote work and security. A multi cloud strategy is used for variety of reasons including disaster recovery, data residency requirements and resilience.
2. **Contactless solutions and digital payments:** after demonetisation there was increase in the number of digital payments. And during the pandemic it was the only way of survival and after the pandemic it has become the routine of our life. The technology behind contactless payments are E-wallets, electronic wallets or mobile wallet solutions that enable users to make payments quickly, safely and conveniently. Several mobile payments are available such as Google pay, paytm, razor pay etc.
3. **Block chain:** it is decentralised and distributed ledger which records the transactions with respect to digital asset. Once a transaction is recorded in the decentralised ledger, it is unalterable. In block chain the integrity of documents are preserved which is crucial in creating trust in digital assets. It is one of the promising and revolutionary technology because it reduces risks, stamp out the fraud, and brings out transparency in scalable ways for myriad uses.

4. **Data science, big data, data analytics and artificial intelligence(AI):** data science is a broad field of study that deals with data systems and processes in order to maintain data sets and deriving meaning out of them

Big data deals with that data that is growing at exponential pace and huge in volumes. It is not possible for conventional data to manage and store or process such data efficiently and effectively because of their capabilities and capacities.

Data analytics analyse raw data so as to draw conclusions about the information. It is a broad term that encompasses a number of diverse techniques to get insights that can be used to optimize processes or to increase the overall efficiency of the system or business. Data scientists use data analytics to generate reports with the help of which inferences can be withdrawn.

Artificial intelligence is concerned with building smart machines that are capable of performing such tasks that requires intelligence of human. It is the future and many companies are investing huge amount on it. Some of the examples of artificial intelligence are: speech recognition, customer service, recommendation engines, automated stock trading,

Impact of digital transformation:

1. **Huge investment in cloud computing:** cloud computing was popular from long back. It was during the pandemic that it was noticed that investment in cloud computing is showing the increase in trends and its necessity also. Many entities are investing in cloud computing and its related software after considering its benefits and cost effectiveness.
2. **Cyber security:** as the financial transformation is increasing at rapid pace, risk and vulnerabilities are also increasing at the rapid pace and to address such issues upgradation of the cyber securities systems are required.
3. **Work from home/Remote working:** work from home and remote working were emerged as necessity during the pandemic, later it emerged as a trend in some of the companies. As per a survey by PWC in June 2020 “54% of the CFOs were planning to make remote working a permanent option.”
4. **ESG Reporting:** ESG reporting is the disclosure of environmental, social and corporate governance data. Its disclosure requirements aim to shed light on companies ESGs activities while improving the transparency of investors and inspiring other entities to do the same. Entities can achieve cost reduction through reduction in physical offices which can lead to lessening the impact on environment, which can form part of ESG Reporting.
5. **Upskilling:** As the way of doing business is changing. And business is becoming dynamic and transforming towards more and more digitalisation. Professionals are required to upgrade their skills as per the requirements. Many apps are collaborating with universities for preparing such courses that can update the skills of their employees.
6. **Digital supply chain management:** one of the main factors that helps towards profitability of a company in great way is efficient and effective supply chain management. Digital supply chain management system can take entities to the next level as they use advanced analytics for risk assessment.

Challenges before digitalisation:

Digital transformation, whether in finance or other fields has bought a tremendous change in doing the business and has bring so many opportunities. But whenever something brings opportunity it carries challenges along with itself. The major challenges before digitalisation are not only related to risks and vulnerabilities but in compliance and governance also. Some of the challenges are discussed below:

1. **Infrastructure:** In developing nation there is a dire need of not only in digital infrastructure but also of network expansion of roads and railways which remains a substantial challenge.
2. **Data concentration and competition:** large tech have monopolies in this area and they are in position to enjoy a competitive advantage as compared to medium or small organisation.
3. **Data privacy:** data protection and privacy are the main concerns that arise out of digitalisation, because when an organisation uses internet platform, it exposes itself to additional security threats and privacy issues. Risk of misusing personal information and intellectual property is very high.
4. **Expandability:** it refers to transparency through understanding the algorithm decision making process used by the AI model. Entities should be made responsible for providing its consumers and business users with an adequate level of trust and expandability to ensure trust in AI model.
5. **Problem of piracy:** intellectual property such as copyright may not be adequately protected when such property is transacted digitally.
6. **Costly:** it requires strong internet connection and other specialised equipment and teams that makes it costlier.
7. **Problem of anonymity:** there is a need to identify and authenticate users in the virtual global market where anyone can sell to or can buy from anyone from anywhere.
8. **Data loss/theft/duplication:** there are chances that data transmitted through internet may be lost, duplicated, tampered or can be replayed.
9. **Attack from hackers:** web servers are vulnerable to hackers.
10. **Non- recognition of electronic transactions:** some countries don't recognize the digital records.

4. Conclusion:

As we know coming age is of artificial intelligence and we are in the way towards artificial intelligence. Artificial intelligence is welcomed and measure should be taken to upgrade the people instead of replacing them. Because of this digitalisation some jobs will end but it will also provide ample opportunities. Digital start-ups will offer new and different role to the employees. To make people updated and skilled our government is planning to invest INR 18 million on training. Many education institutions are offering analytics course and trainings to support the increasing demand of analytical skills role. Earlier it was assumed that these courses are only for non-finance people. But scenarios have been changed totally. Organisations are preferring people with understanding of technology.

Digitalisation in finance has begun. Finance teams need to work with robots and other technologies to support end to end process to teach the machines to handle the situations to which they are unfamiliar with. Sooner the business and finance community accepts and adopts the changes the more convenient it will be.

Limitations of the study:

The primary limitation of the study is that it is based upon secondary data and literature review.

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