Emerging Trends in Finance

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**Abstract**

 The future of the finance industry is exciting and full of opportunities, but it’s also rapidly changing. To stay ahead of the curve, financial institutions will need to embrace new technologies, comply with changing regulations, and adapt to changing consumer preferences. The rise of fintech startups and other new players is disrupting the industry, but it’s also creating new opportunities for innovation and growth. As we look to the future, it’s important to keep an eye on emerging trends and predictions to ensure that your organization stays competitive and relevant in the ever-changing finance industry. Emerging trends and technologies will shape the industry in new and exciting ways. To stay ahead of the curve, it’s important to stay up-to-date on the latest trends and predictions. The paper attempts to present the Emerging Trends and prediction in finance.

**Introduction**

 Emerging trends in finance encompass a wide range of developments that are shaping the financial industry. These trends are not only impacting traditional banking practices but also presenting new opportunities for banks to enhance their services, streamline operations, and better serve their customers. This paper aims to shed light on the latest trends in finance, offering insights into how they are reshaping investment strategies, financial services, and overall economic dynamics.

**I. Recent trends in finance**

1. **Fintech Revolution**: The rise of financial technology has disrupted conventional financial services, giving birth to innovative solutions in payments, lending, wealth management, and more. The adoption of blockchain, artificial intelligence, and big data analytics has accelerated the democratization of finance and enhanced accessibility for consumers and businesses
2. **Sustainable Finance**: Environmental, social, and governance (ESG) considerations are no longer optional but have become integral to investment decisions. The growing awareness of climate change and social responsibility has driven a surge in demand for sustainable investment options and responsible corporate practices
3. **Decentralization and DeFi**: Decentralized finance (DeFi) has emerged as a transformative force, leveraging blockchain technology to offer decentralized and open financial protocols. Empowering users with greater control over their assets, DeFi projects are challenging traditional intermediaries, paving the way for a more inclusive and transparent financial ecosystem.
4. **Regulatory Paradigm Shift**: Governments and regulators worldwide are reevaluating their approach to financial oversight. Striking a balance between fostering innovation and ensuring consumer protection has led to new regulatory frameworks that impact financial services, crypto currencies, and digital assets.
5. **Rise of Digital Currencies:** Central bank digital currencies (CBDCs) and private crypto currencies have gained momentum as potential alternatives to traditional fiat currencies. The integration of digital currencies into mainstream financial systems has implications for monetary policy, cross-border transactions, and financial inclusion.
6. **Non-Fungible Tokens (NFTs):** The emergence of NFTs has revolutionized the way digital assets are bought, sold, and valued. These unique tokens represent ownership of digital content, enabling creators and investors to monetize art, collectibles, and intellectual property in unprecedented ways.

## II. Technology and Innovation in Finance

The rise of fintech startups has disrupted the traditional banking industry, with many new players emerging to offer innovative financial services. These companies are leveraging technology to create new products and services that meet the needs of consumers who are increasingly turning to digital solutions. As a result, fintech companies are gaining market share from traditional banks.  The following are ten FinTech trends gaining traction in 2023.

1. Agile and adaptive banking
2. Open banking and embedded finance
3. Artificial Intelligence (AI) and Machine Learning (ML)
4. Hyper-automated banking with Robotic Process Automation (RPA)
5. Buy Now Pay Later (BNPL) 2.0
6. Further advance of cloud and digitalization in financial services
7. Distributed Ledger Technology (DLT)
8. Regulatory Technology (RegTech)
9. Metaverse in finance
10. Financial super apps

### A. Agile and adaptive banking

For the financial sector to be agile, it means being competitive while also capable of launching new products at great speed and efficiency. Financial firms, financial institutions, commercial banks, and insurance businesses who stay flexible and nimble are the ones that will stay afloat.[Gartner research](https://www.gartner.com/en/doc/338356-digitalization-will-make-most-heritage-financial-firms-irrelevant) indicates that by 2030 about 80% of the traditional financial institutions will cease to exist.

Moreover, the[Agile banking academic study](https://link.springer.com/article/10.1007/s11573-022-01102-y) by the Journal of Business Economics indicates that about **77%** of banks and **44%** of FinTech firms intend to improve their financial services by adopting Agile methods.

### B. Open banking and embedded finance

Open banking coupled with embedded finance is promoting the digital transformation of traditional banks which is bringing customer information to the forefront in the financial services industry. With this information being shared more effectively, there is a greater opportunity for compliance. Additionally, with FinTech companies knowing their customer’s preferences, there is a chance to[skyrocket the customer experience](https://www.mckinsey.com/industries/financial-services/our-insights/embedded-finance-who-will-lead-the-next-payments-revolution).

In more specific terms, open banking grants the following benefits:

* Allows the creation of an API management infrastructure that eases data sharing
* Promotes API governance architecture for better compliance and security
* Implements data policies improving the efficiency of financial services provisions

At this point it is safe to say, open banking promotes data-sharing practices that help banks and FinTech firms boost their customer experience and comply with the existing rules and regulations.

### C. Artificial Intelligence (AI) and Machine Learning (ML)

In the tech world, AI and ML are two words that are used as often as cutting-edge and innovative. It could be suggested that AI in the FinTech market is the fastest-growing sector

* Increased productivity and better operational efficiency. AI and ML help to monitor, check the quality, and process vast amounts of financial data in a fraction of the time.
* Enhanced personalization in service provision. AI and ML can assess their clients’ personal identifiable information in order to improve financial services, credit card services, mobile services, cloud services, and money management.
* The emergence of new products and services. AI and ML help financial institutions bring forward new products while tapping into new business models.

It is no secret that data is the most valuable commodity at the moment. AI and ML are technologies that help make use of data better than traditional methods. This is what makes these financial services trends so valuable in 2023 and the years to come.

### D. Hyper-automated banking with Robotic Process Automation (RPA)

Similarly to AI, ML, and open banking, the financial services industry has been using hyper-automation for a long time. In short, hyper-automation is now being called upon to increase the speed of financial and banking transactions. Likewise, the instrument can help reduce operational expenses while reducing the impact of human errors.

RPA with hyper-automation takes a great deal of time from staff, thus shifting their responsibilities to core financial tasks. In terms of compliance, the phenomenon reduces the chance of human errors, which reduces the chance of data breaches. Accenture[indicates](https://medium.com/%40stenalferd/robotic-process-automation-in-banking-transformation-unseen-bf80232ec4e3) that **73%**of respondents believe RPA is the key to better compliance.

RPA and hyper-automation in banking are expected to reach **$4.9 billion** by 2029. The market will experience a Compound Annual Growth Rate of **27%** between 2022 and 2029. The[report](https://www2.deloitte.com/us/en/insights/industry/financial-services/digitalization-in-banking.html) by Deloitte indicates about **80%** of banking customers have interacted with at least one RPA tool in the last 12 months. As a result, hyper-automation coupled with RPA, AI, and ML have a bright future for any financial institution.

### E. Buy Now Pay Later (BNPL) 2.0

While the credit system has existed for decades, the ability to purchase something by splitting the purchase into interest-free installments is still new. In traditional terms, BNPL was most often used for high-value items. Currently, the phenomenon is spreading to other categories of goods and entering new industries, including finance .This second version of BNPL allows customers to make online purchases with virtual and physical credit cards. Simply put, the system will work as an ordinary credit card service with the key difference being that you can deconstruct almost any purchase into installment-free payments. Tech giants like Apple have [recognized this trend](https://www.bloomberg.com/news/articles/2023-02-08/apple-expands-test-of-its-pay-later-service-to-retail-staff) and already are reaping the benefits.

Taking this into account, BNPL 2.0 is expected to be a great customer engagement opportunity. It will create a more seamless purchasing experience and decrease the card abandonment rate.

### F. Further advent of cloud and digitalization in financial services

Bringing the financial services sector into the cloud is a way to make it secure, efficient, transparent, and effective. With cloud computing advancing rapidly, we can only imagine what new data storage and management tools will emerge in the near future. Sticking with the cloud is the right solution for any industry valuing data.  Yet, while the cloud grants various benefits to the financial sector, cloud adoption in some areas is still impeded by unwieldy regulations.

The global finance cloud market is currently[valued](https://www.imarcgroup.com/finance-cloud-market#:~:text=The%20global%20finance%20cloud%20market%20was%20valued%20at%20US%24%2027.13,21.70%25%20during%202022%2D2027.) at**$29** billion and is expected to rise at a CAGR of **22%** until 2027. This means digital transformation is moving at a pace that is[reshaping the technology offering and customer experience](https://www.mckinsey.com/industries/financial-services/our-insights/emerging-markets-leap-forward-in-digital-banking-innovation-and-adoption) banks and other financial institutions are offering. Now, let’s look at how ’cloudization’ and digitization in the financial services industry are presenting themselves.

The phenomena come with these aspects:

* Server less computing
* Cloud-native re-plat forming
* Containerization
* Open banking
* Technology access

**Advantages**

* Cost reduction linked to the abandonment of physical data centers in favor of the cloud
* Agility and scalability through the rapid increase of cloud data storage capacity
* Faster and better access to data with lower downtime
* Enhanced data security and greater data transparency

### G. Distributed Ledger Technology (DLT)

Businesses operating in the financial sector are constantly looking for agile and innovative methodologies because their legacy systems are creating too many complexities. For instance, these old systems come with a lack of transparency, fragmented wealth management, and siloed operations. Because of this, FinTech firms are experimenting with various Web 3.0 technologies in order to face the challenges noted above.

The advantages are linked to the following:

* **Collateral management**. DLT helps businesses tap into unused assets while also reducing operational overheads. This is done by automating both initial and variation margin flow.
* **Trust issues.** Parties involved in financial operations often have a competing business interest. DLT helps give each party an independent node providing equal data access and efficient consensus protocol rise.
* **Inefficiency**. When there is no single data source, various operational risks, manual verification processes, and multiple reconciliations appear. DLT offers real-time confirmation and settlement through[smart contracts](https://www.ibm.com/topics/smart-contracts#:~:text=Smart%20contracts%20are%20simply%20programs,intermediary%5C's%20involvement%20or%20time%20loss.).
* **Democratization**. DLT brings democratic access to data, information, and assets making all parties equal in the context of the financial operations conducted.

### H. Regulatory Technology (RegTech)

The RegTech market is growing similarly to global cloud finance and RPA. RegTech helps financial institutions keep up with the increasing pressure of regulation, which makes automation serve the purpose of better compliance through error minimization, efficient data processing, and effective risk management.

The rising number of fraudulent activities in the financial sector. Some even call[RegTech a new FinTech](https://www2.deloitte.com/content/dam/Deloitte/tw/Documents/financial-services/tw-fsi-regtech-new-fintech.pdf). It is crucial to explore several key elements so as to determine whether the concept meets its preceding reputation. In short, RegTech is a way of improving compliance by applying modern technologies.

This approach offers following benefits:

* With growing regulation, compliance personnel cannot keep up with it. RegTech helps automate the compliance process by processing vast data volumes at a rapid pace.
* The traditional methods of compliance relied on manual input, which is prone to human error. In turn, RegTech is based on automation tools and algorithms minimizing the chance of error.
* RegTech brings higher transparency in connecting people to processes. In this way, insights can be shared much faster and more candidly.
* RegTech improves risk management. Businesses can use their existing data to evaluate risks, as well as alert personnel and authorities of suspicious activities.

### I. Metaverse in finance

The metaverse concept will forever be associated with Mark Zuckerberg’s promo. The metaverse can be coined as[the fifth stage of the banking evolution](https://economictimes.indiatimes.com/markets/cryptocurrency/metaverse-the-real-impact-on-banking-and-fintech-industry/articleshow/95604401.cms?from=mdr). The key argument is that it brings the customer experience in virtual banking to a whole other level. Metaverse brings AR and VR into the financial sectors, thus improving personalized banking as a service. Notably,**banks choose these metaverse-propagating tools as the key point of focus.**

It is[expected](https://economictimes.indiatimes.com/markets/cryptocurrency/metaverse-the-real-impact-on-banking-and-fintech-industry/articleshow/95604401.cms?from=mdr) that by 2030, about **50%** of banks all over the globe will use AR and VR as a channel for customer transactions and employee engagement. Bank of America recently[launched a VR-based training program](https://newsroom.bankofamerica.com/content/newsroom/press-releases/2021/10/bank-of-america-is-first-in-industry-to-launch-virtual-reality-t.html) to help their employees prepare for real-life customer interactions. In turn, BNP Paribas[launched an app](https://medium.com/ipg-media-lab/french-bank-bnp-paribas-dives-into-virtual-reality-with-an-app-a-pod-1bc9325c008e) allowing customers to conduct different banking transactions via VR. These experiments are not so widespread, yet they show some promise.

### J. Financial super apps

The final trend for today is financial super apps. These are applications focused on delivering a better customer experience through hyper-personalization. For instance in China, super-app payment solutions are[used](https://deloitte.wsj.com/articles/super-apps-in-financial-services-5-keys-to-success-01667936659) by **92%**of city residents which surpasses the popularity of credit, debit, and cash combined. WeChat and Alipay are notable super apps examples.

In short, super-apps are extremely popular because they bring different apps into one single ecosystem. With a super-app, you can shop, set an appointment, place an order, make a purchase, and communicate all in one place. With about**1.25 billion**users, WeChat grants varying functionality with just a single app installed. As a result, you don’t need to develop multifaceted ecosystems with a super-app. And, you can design and develop a product with varying functionality. This boosts the customer experience and makes it easier to secure data flows.

## III. Key Developments that Redefined the Indian Financial Sector

The Indian financial landscape is increasingly becoming innovation and tech-driven, with India Stack, [artificial intelligence (AI)](https://protium.co.in/2022/11/16/ai-and-ml-based-lending/), embedded finance, and robotics playing an instrumental role in its transformation. Conventional lenders have been reevaluating their role and collaborating with fintechs to offer bespoke loans, savings, insurance, and other credit products.

### IndiaStack: The Foundation for Financial Revolution

The roots of digital transformation can be traced to the launch of Aadhaar, a unique, unified identification system which now forms a part of IndiaStack. Aadhaar, along with the launch of Jan Dhan Yojana in 2014, accelerated financial inclusion by massively improving bank account enrollments and offering overdraft facilities.

**IndiaStack**, which is a decentralized public utility, has enabled several financial sector players, including fintechs, to offer paperless and cashless service solutions to India’s biggest payment and data-management challenges. On using its sets of open APIs, lenders have managed to lower loan costs, making credit accessible and affordable.

### Digital Payments for Cashless Economy

With an[87% fintech adoption rate](https://www.investindia.gov.in/sector/bfsi-fintech-financial-services#:~:text=Funding%20since%202014-,Highest%20Fintech%20adoption%20rate%20globally,-(87%25)), there is no doubt that consumers have taken to digital payments as fish takes to water. They have also been integrating other digital solutions, such as online-only insurance, digital wallets, and investment tech, into their lifestyles. Of course, a significant portion of this growth can be traced to the pandemic days when going cashless was the safest option. RBI aims to raise digital payment transactions 3x by 2025, per its “[Payment Vision 2025](https://rbidocs.rbi.org.in/rdocs/PublicationReport/PDFs/PAYMENTSVISION2025844D11300C884DC4ACB8E56B7348F4D4.PDF)” report.

### Digital Banking and Neobanks

Digital banking has taken off with customer on boarding transitioning from physical papers to online processing. Supplemented with AI/ML-driven algorithms, several large incumbent banks have been striving for digitalization, thus lowering processing and interest costs, while ensuring superior customer engagements.

This trend also explains the soaring popularity of neobanks, i.e., digital-only banks. For the uninitiated, neobanks are financial companies that behave like banks but have no physical branches. With [smartphone penetration](https://protium.co.in/2022/11/23/smartphones-a-significant-catalyst-for-driving-credit-penetration-in-india/), cheap data rates, and consumers’ preferences for digital solutions, neobanks have soared in popularity. Best of all, they offer personalized financial solutions, fueling their growth further.

### The BNPL Trend in Consumer Lending

Buy Now Pay Later (BNPL) is a novel consumer lending product where banks extend credit to their consumers by spacing out interest-bearing installments over a short period. While concerns have been raised about financially illiterate people taking on BNPL loans without understanding the financial arrangements, this product continues to grow.

### The Rise of Embedded Finance

[Embedded finance](https://protium.co.in/2022/12/06/all-about-embedded-finance-the-next-big-thing-in-finance/) is the practice of integrating financial services by digital-first, non-financial firms. As a result, consumers can directly pay on the platform, discounting the need for the involvement of third-party payment providers. Cab payments and e-commerce payments are some examples.

### Blockchain, CBDC, and e-RUPI

Many central banks, including RBI, have mulled over expanding their use cases by building a central bank digital currency (CBDC) over the blockchain. While a completely digital money product is still in piloting, RBI has introduced an e-RUPI, which is a contactless and secure method of availing of benefits by redeeming the government voucher. However, it is likely to expand further into the retail payments space over the next 2-3 years.

### Evolving Regulatory Landscape: Open Banking and AA

In addition to issuing digital lending guidelines, RBI has introduced an Account Aggregator (AA) framework for an equitable regulatory ecosystem. It has given a fillip to open banking by empowering individuals to share their financial data with lenders on a consent basis to avail of easy credit options.

Furthermore, with India set to accede to The UN’s Responsible Digital Payments principles, the financial sector is set to become more secure.

### H. Engineering Finance

Engineering finance is a cohesive collaboration between tech, data science and analytics and risk. This helps ascertain the customer’s requirements through data analytics, build best-in-class risk models and create innovative products using cutting-edge technology.

As a result, [business loans](https://protium.co.in/apply-for-a-loan/) are no longer dependent on CIBIL scores. Instead, lenders now utilize their own credit scoring models, including cash-flow-based lending, to sanction tailored and affordable loan products.

**Conclusion**

Overall, these emerging trends in finance present both opportunities and challenges for banks. Embracing technological advancements and adopting customer-centric strategies can enable banks to stay competitive, deliver superior services, and tap into new markets. However, they must also be mindful of the potential risks, regulatory considerations, and the need for continuous adaptation in this rapidly evolving financial landscape. Banks that successfully integrate these trends into their business models are likely to be at the forefront of the industry's transformation.

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