

## **EVOLVING DYNAMICS IN FINANCIAL SERVICES AND GLOBAL BUSINESSES**

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### **ABSTRACT**

The most pivotal business achievements of the 21st century can be classified as the following - the revolutionization of software technology to create a digital economy, rapid economic globalization due evolution of smart devices and enhanced internet and data connectivity services, the development of fintech firms and online payment strategies. This white paper discusses these developments along with the international payment flows which can be attributed to five mega-themes related to the POWER+ framework comprising - Platforms, Online, Wallets, Embedded and Real-Time and the micro-themes under this framework, which are depicted in the above figures. This paper further concludes with the evolving business scenarios in India in the education, health, travel and hospitality businesses, which transformed drastically due to the Covid-19 pandemic, the related key market drivers, different and new product categories within these sectors, the corresponding support of fintech firms, accelerating technological advancement and digital transformation, along with the current trends in these industries.

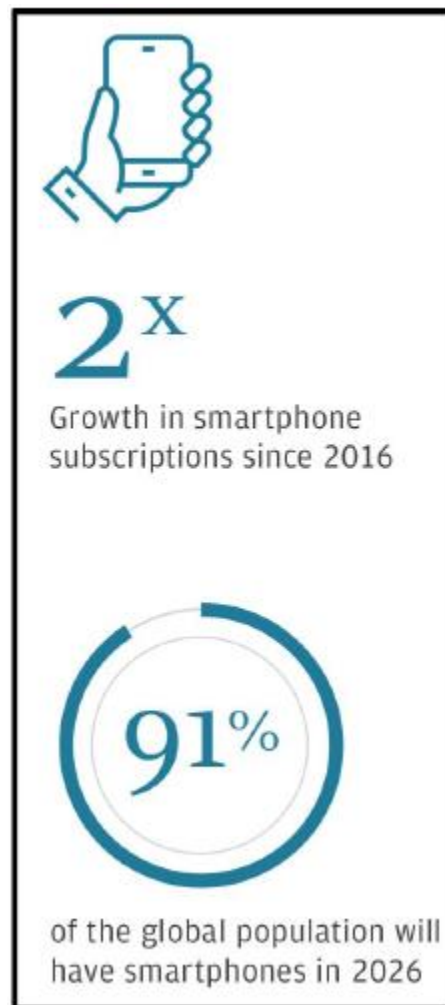
### **Increasing Global Connectivity And The Development Of Fintech Services**

Rapid globalization, technological revolution, availability of high-speed data services and the evolution of smart devices, especially smart cell phones, have accelerated the growth of digital payments worldwide and developed positive disruptions in fintech services, thus fueling e-commerce. Correspondingly, it has been anticipated that in the successive decade, digital payments will go on linking individuals and financial payment gadgets, while traversing digital and virtual spaces and developing new business models. Furthermore, the pandemic of 2020 and the arising social distancing norms have led to an unanticipated surge in growth in digital advancement and e-commerce activity.

In the year 2016, 3.67 billion global smart phone subscriptions were estimated. Now this

estimation has become twice as much, and by the year 2026, it is anticipated that 91% of the worldwide population will possess a smart phone, enhancing digital payment platforms. [1] Refer to Exhibit 1 which explains this concept diagrammatically. Further, the availability of economical, quick, customer-centric, easily adaptable, roaming data services has united individuals globally, enabling easy and safe communication channels.

**Exhibit 1 - Growth in global smartphone subscriptions since 2016**



Source: J.P. Morgan - Payments are eating the world

Over the last decade fintech has progressed rapidly and it has enabled the utilization of technology to provide simpler, quicker and superior financial service. As per FT Partners, it is estimated that US\$1.5 trillion of fintech investment and merger and acquisitions (M&A) activity took place between 2010-20. [2] Refer to Exhibit 2 for further details.

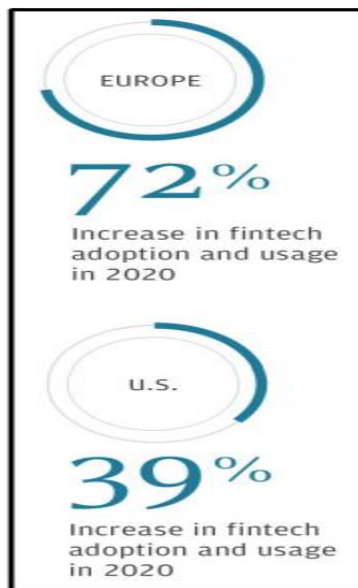
**Exhibit 2 - Growth of fintech firms from 2010-21(H1)**



Source: J.P. Morgan - Payments are eating the world

Also, it is foreseen that by 2025, the overall adoption and tremendous usage of digital financial services could boost the GDP of all developing economies by 6%, valued at US\$3.7 trillion, building 95 million fresh job opportunities. [3] During 2020, in Europe the fintech adoption and use rose by 72% and in the U.S. the values surged by 39%. [4] Refer to Exhibit 3.

**Exhibit 3 - Surge in fintech adoption and usage**

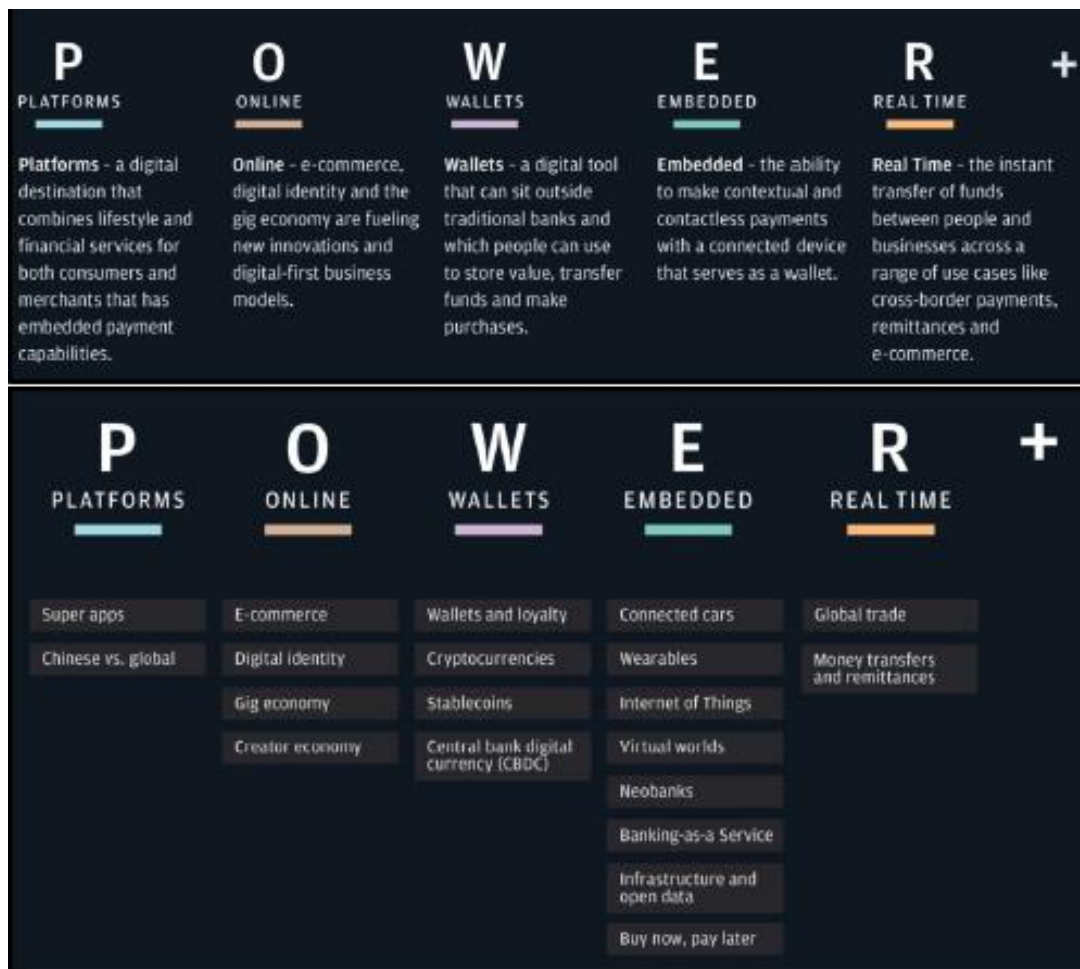


Source: J.P. Morgan - Payments are eating the world

The opening up of 5G data services and its association with refinements in artificial intelligence (AI) algorithms, quantum computing and blockchain, the introduction of the new generation conversational AI, the Internet of Things (IoT), the development of connected cars and increased virtual reality evolution in marketplaces, has reshaped business economies.

In the year 2020, a majority of the international payment flows could be attributed to five mega-themes related to the POWER+ framework comprising - Platforms, Online, Wallets, Embedded and Real Time. The integration of the micro themes under this framework and the related value-added services have led to payment flows for buyers and vendors. Refer to Exhibit 4 to study the micro themes of the POWER+ framework.

**Exhibit 4 - Themes related to the POWER+ framework**



Source: J.P. Morgan - Payments are eating the world

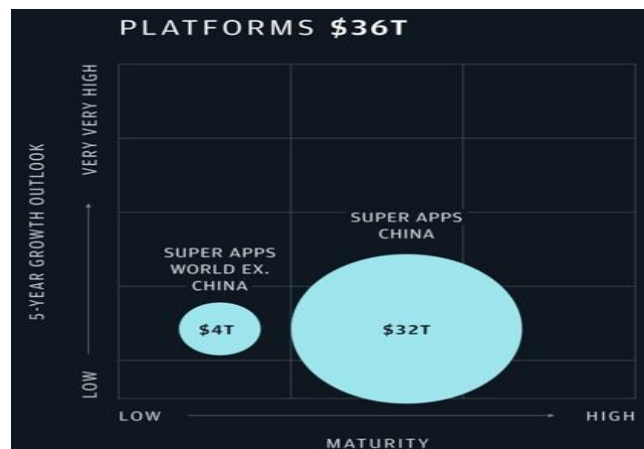
### Initialisation Of Digital Platforms Super Apps And E-commerce Business Trends

Super apps and digital platforms enable buyers and traders to meet and initiate economic transactions. They aggregate an expansive cluster of services where consumers can access a miscellany of diverse merchandise range and commercial services, with significant embedded payment capabilities. These platforms promote business transactions to be finalized smoothly with the swipe of a finger, so that potential clients can transact without exiting the app. Hence, shoppers are attracted to the notion of a one-stop shop, which manages the exemplary elements of all their apps.

For merchandisers, tying up with a super app indicates they no longer have to invest in essential infrastructure to entice digital clients. Rather, they can profit from the bigger scale, consumer activities and diffusion of the super app, which hosts and facilitates e-commerce transactions for them. Occasionally, this involves risks such as - the digital platform can discover from client conduct and manipulate that database to develop goods and services with immediate competitors cannibalizing their business interests in favor of the platform's gain. Additionally, the fee that super apps seize from traders can be lofty.

Analyze Exhibit 5 which depicts that over the last couple of years, international payment magnitudes for these digital entities have boosted to US\$36 trillion, steering them to be tremendous disruptors for both conventional retail prototypes and the world's banking and monetary strategies. At times, stringent data security measures may deter super apps from prospering, as can be observed in different territories across the globe as compared to China.

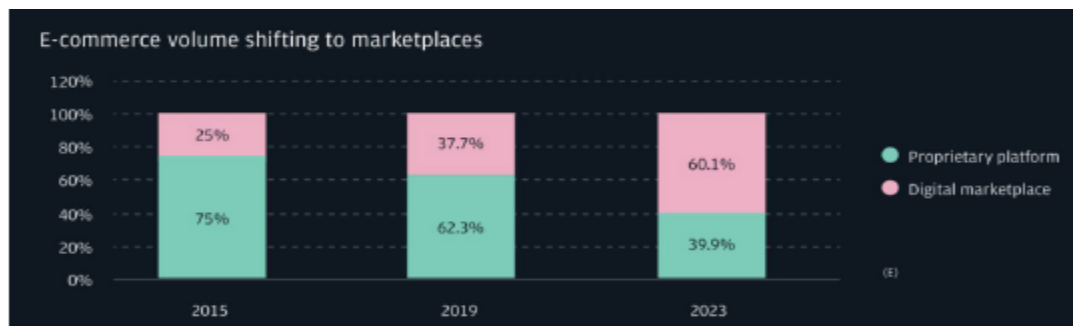
Exhibit 5 - Growth in digital platforms from 2015-20



Source: J.P. Morgan - Payments are eating the world

Earlier to the onset of the current pandemic, e-commerce was already transforming its path from proprietary websites toward online marketplaces which usually have potent sales volume and are expanding to be vertically integrated. Furthermore, as per the Boston Consulting Group, US\$5 trillion of yearly transnational retail sales swung around from offline to online due to the pandemic-related consequences and this transition is probable to stay in the future too post the pandemic era. [5] Refer to Exhibit 6 which explains the increase in digital marketplace vis á vis proprietary platform from 2015-23. Additionally, Exhibit 7 depicts that the maximum growth in the online sector can be contributed to the e-commerce industry.

**Exhibit 6 - E-commerce volume from proprietary platforms shifting to digital marketplaces from 2015-23**



Source: J.P. Morgan - Payments are eating the world

**Exhibit 7 - Growth in global online business from 2015-20**



Source: J.P. Morgan - Payments are eating the world

Digital identifications deliver a safe method of identifying an online client and are critical in developing trust between transacting buyers, their gadgets and businesses. The digital identity ecosystem has numerous applicable stakeholders namely, government bodies, monetary institutions like banks, nongovernmental organizations (NGOs), healthcare firms and significant tech companies, which aim to offset trust with ubiquity.

Also, as per Mastercard®, the gig economy which is distinguished by temporary and flexible employment opportunities brokered by online platforms and independent contractors or freelancers surpassed practically US\$300 billion in gross transaction magnitude in the year 2020 and is anticipated to prosper to US\$455 billion by 2023. [6] Exhibit 8 depicts this information graphically.

**Exhibit 8 - Surge in the global gig economy from 2018-23**



Source: J.P. Morgan - Payments are eating the world



While the gig economy monetizes commodity talents, the creator economy monetizes passion and ideas of self-employed workers, like social media influencers, monetizing their ingenious skills through online platforms. This sector was valued at US\$100 billion in 2021 and is thriving rapidly.

### Emergence Of E-wallets Cryptocurrencies And Development Of Neo Banks

Until the 1990's commercial banks maintained the exclusive ownership to store monetary value, but as technology advanced and digital security enhanced over time, it gave birth to cryptocurrency and digital wallets. Now in the modern economy numerous forms of money exist, such as conventional "fiat currency" which is cash or commercial bank deposits, cryptocurrencies, stablecoins, tokens, central bank digital currencies (CBDCs) and "narrow money" like Starbucks© or Amazon rewards. Digitized monetary transactions are currently grabbing a rising percentage of total transactions with cash transactions declining from a 40% stake ten years ago as compared to a 26% stake currently. [7] Refer to Exhibit 9 which discusses the growth of digital wallets from 2015-20.

Exhibit 9 - Surge in digital wallets



Source: J.P. Morgan - Payments are eating the world



PayPal was among the first multinational American financial technology companies operating online payment systems launched in 1999. Initially PayPal performed largely as a store of payment credentials like customer credit card number and bank account data, but over time the fintech firm grew to maturing as a true wallet where monetary reserves could be kept outside bank accounts and finances could be transferred between a client's wallet, bank account and additional users.

However, with quick penetration of smart phones and digital advancement, the number of digital wallets has proliferated, like Apple Pay® (2014), Samsung Pay® (2015) and Google Pay™ (2015). The future evolution of wallets takes two different paths - universal wallet where a single wallet functions everywhere and operates through biometric identifiers and the other is a contextual wallet where individuals have separate wallets for different functions.

Also, with the advancement of cryptocurrencies, the notion of monetary value being accumulated mainly in a bank account is being revised. Blockchain technology that helps cryptocurrencies to operate is so unusual that there is no centralized ledger and the monetary value is stored in decentralized networks and is able to build a steadfast record of monetary transactions. Refer to Exhibit 10 which depicts that as of July 2021, there were more than 75 million blockchain wallet users across the globe, which indicated an expansion of 23 times since 2015. [8]

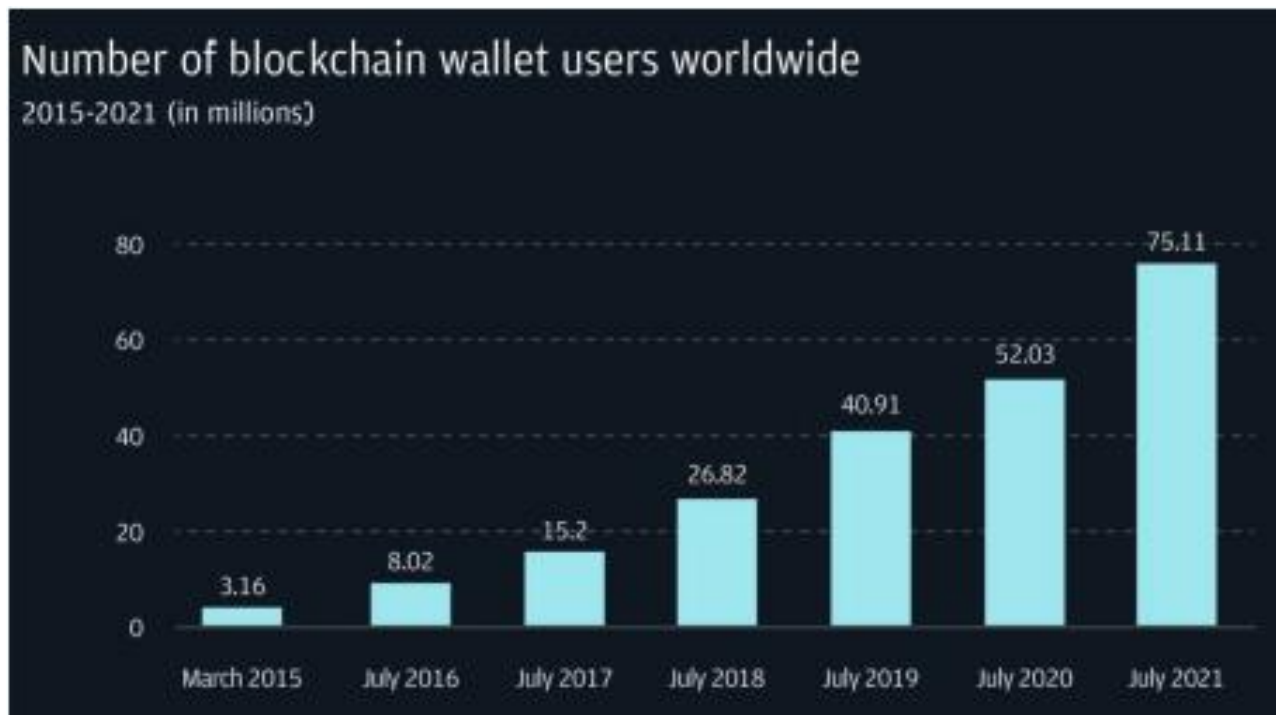
**Exhibit 10 - Increasing use of global blockchain wallet users**



Source: J.P. Morgan - Payments are eating the world

Nonetheless, there are several impediments to the broader acceptance of cryptocurrencies, which comprise increased price volatility and problems with the speed, scalability and safety protection of blockchain networks. Exhibit 11 depicts the growth in the global blockchain wallet users from 2015-21.

**Exhibit 11 - Growth in the global blockchain wallet users from 2015-21**

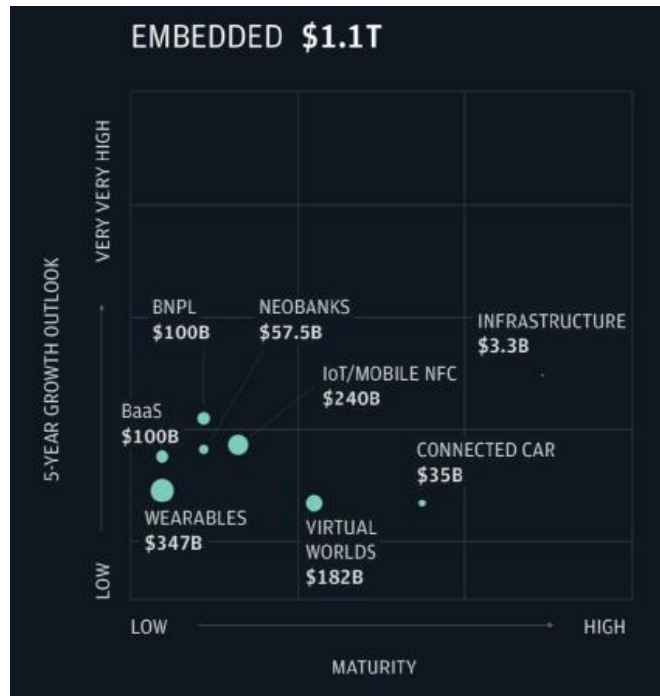


Source: J.P. Morgan - Payments are eating the world

Furthermore, stablecoins are cryptocurrencies that are pegged to different assets like fiat money or tangible commodities such as silver and gold. From 2015 it took five years for stablecoins to gain a supply of 6 billion, but in 2020 it took only four months to twice that supply to 12 billion. [9]

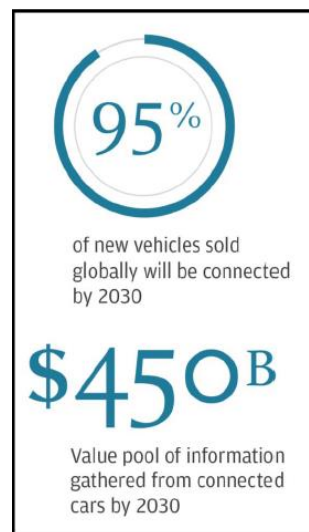
Embedded payments means the easy way shoppers are able to put together contextual and contactless monetary dealings at any time at any given location via connected gadgets that operate as wallets, such as connected cars, wearable technology etc. and thus form a pivotal aspect of the imperceptible banking notion. Exhibit 12 discusses the growth of embedded payments globally from 2015-20. Additionally, Exhibit 13 discusses the anticipated 95% growth in connected cars by 2030, as compared to its competitive value of approximately 50% in 2020.

**Exhibit 12 - Rise in embedded payments**



Source: J.P. Morgan - Payments are eating the world

**Exhibit 13 - Growth in the volume of connected cars**



Source: J.P. Morgan - Payments are eating the world

Wearable technologies are a type of electronic gadgets that can be utilized as accessories to make payments, such as an Iwatch. Internet of Things (IoT) depicts the system of machines and consumer merchandise that are able to share data and communicate over the Internet, for example Amazon Echo Voice. Neobanks are digital-only banks that function virtually without the existence of physical units, like a bank app on smart phones. Such banks operate APIs to deliver goods and services in an engaging manner creating an outstanding customer experience.

**Exhibit 14 - Increase in digital bank account holders in the USA from 2021-25**

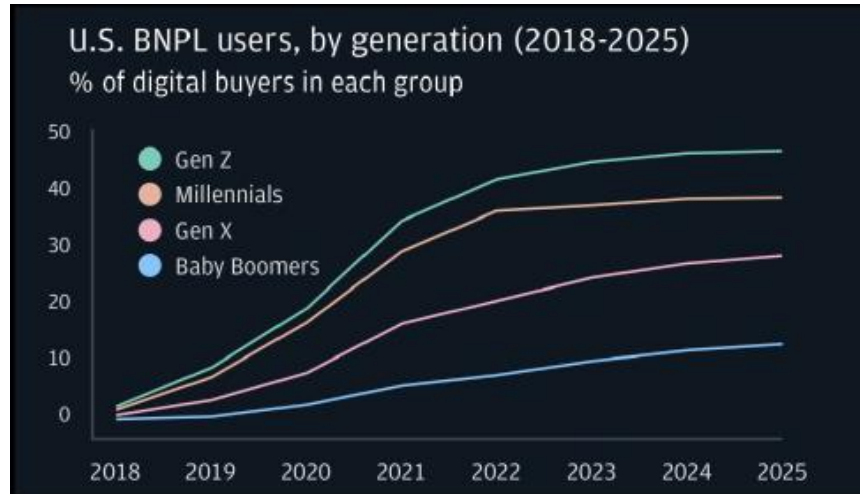


Source: J.P. Morgan - Payments are eating the world

Also, APIs assist any software firm to add payments and banking outgrowths and related services directly to its buyers under its own brand label. This is known as Banking-as-a-Service (BaaS). Summing up payments derivatives is not only a supplementary income stream, but it has evolved significantly to a software firm's brand and profit gains. For example, Uber's Visa debit card, which originated particularly for its motorists, offers no costs, instantaneous pay, and overdraft security and targets to provide loyalty rewards.

The buy now, pay later (BNPL) option can be facilitated with digital payments. Refer to Exhibit 15 which depicts the different categories of shoppers using this facility. Millennial and Gen Z buyers are urging for adjustable, inclusive and transparent methods to settle payments rather than conventional interest-bearing alternatives, hence preferring buy now, pay later solutions.

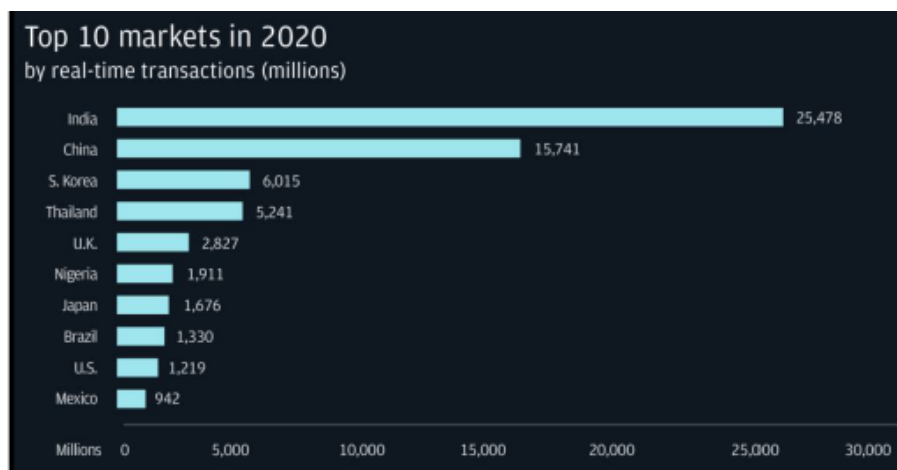
**Exhibit 15 - Different categories of buy now, pay later shoppers in the USA from 2018-25**



Source: J.P. Morgan - Payments are eating the world

Real-time payments include revenues from global trade and money transfers like - an employee sending remittances to his/her own nation or e-commerce buyers making instantaneous monetary transactions. The global demand for real-time payment abilities is rising and Exhibit 16 depicts the top 10 global markets in 2020 in terms of real-time transactions. However, there is extensive work yet to be accomplished before the actuality of instantaneous payments can be fully recognized and substantial advancement towards this purpose will be put together in the future.

**Exhibit 16 - Top 10 global markets in 2020 in terms of real-time transactions**



Source: J.P. Morgan - Payments are eating the world

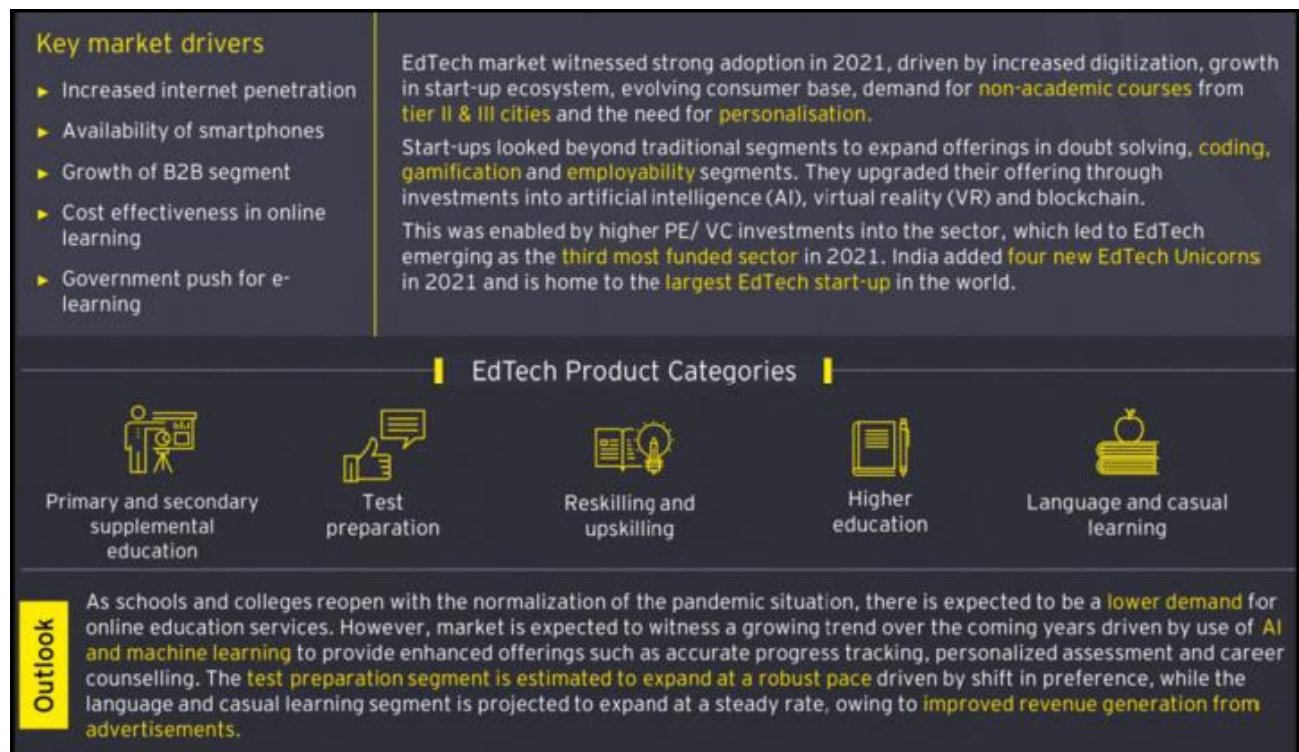
## Changing Business Scenarios In India In The Education, Health, Travel And Hospitality Industry

Listed in this section is the sectoral growth in the education, health, travel and hospitality industries due to the evolving dynamics of digitalization.

### Development Of The EdTech Industry

Driven by the 2020 pandemic, the related social distancing norms and successive lockdowns, led to a major transformation in the education sector shifting it from an in-person mode to an online mode. This model of education has ushered in the proliferation of EdTech companies globally, as well as in India. EdTech businesses are currently augmenting learning services, installing online touchpoints and embracing gamification-based learning to facilitate students' comprehensive skills. Exhibit 17 depicts the primary market forces which led to the development of the EdTech sector and its main characteristics.

**Exhibit 17 - Evolution of the EdTech sector**



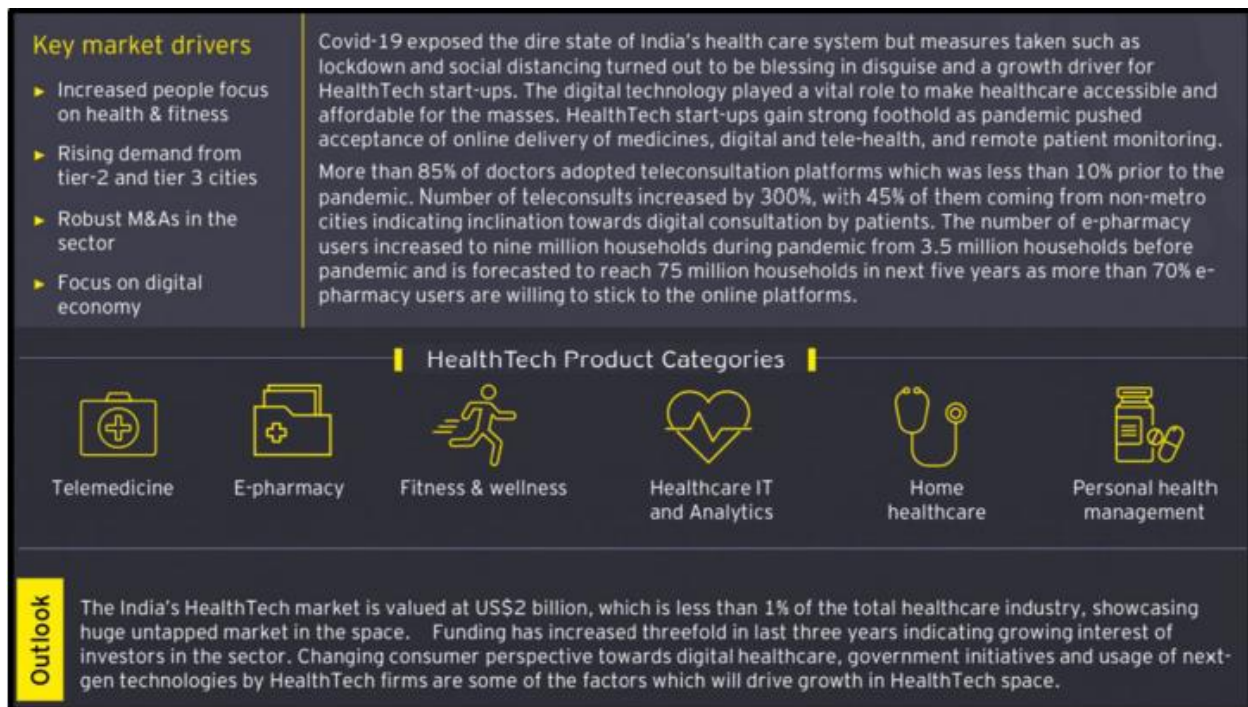
Source: "E-commerce and consumer internet sector, India Trendbook 2022 March 2022" Ernst & Young



## Growth Of The HealthTech Sector

The Covid-19 pandemic accentuated the voids in the existing healthcare strategy and gave birth to several opportunities for health-tech companies to address these gaps, reshaping the healthcare sector, hence speeding up the acceptance of digital healthcare. The enforcement of social distancing norms to prevent the spread of the disease, the low doctor-to-patient ratio and scarcity of decent health infrastructure, created many prospects for start-ups to plunge into the healthcare space. HealthTech start-ups dwelling in online drug, pharmaceutical and medication delivery, e-consultation with doctors and fitness experts and widespread technological solutions in the last couple of years enticed investors' engagement. Refer to Exhibit 18 which depicts the primary market forces which led to the development of the HealthTech sector and its main characteristics.

### Exhibit 18 - Rising HealthTech industry



Source: "E-commerce and consumer internet sector, India Trendbook 2022 March 2022" Ernst & Young

## Reshaping The Travel And Hospitality Business

The health hazards of the on-going pandemic carried forward a series of subsequent lockdowns which negatively impacted the travel and hospitality industry. However, companies in the sector took this as a perspective to facilitate the business by adopting digital technology for operations



that were human resource intensive earlier. These businesses automated procedures such as seat bookings, meal reservations, cancellation, room reservations, self-checkouts and consumer services which enabled them to trim expenses and adhere to social distancing norms. Exhibit 19 depicts the primary market forces which led to reshaping of the travel and hospitality sector and its main recent characteristics.

**Exhibit 19 - Metamorphosis in the Travel and Hospitality sector**



Source: "E-commerce and consumer internet sector, India Trendbook 2022 March 2022" Ernst & Young

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