TECHNOVATION IN THE BFSI SECTOR IN INDIA: THE WAY FORWARD

Question
How should we conceptualize 'Technovation' as an opportunity?

Answer
'Technovation' requires an Economic Theory exposure for adequate conceptualization. Otherwise, its literal meaning, as a combination of two words 'innovation' (i.e., invention, discovery or development) plus 'technology' (i.e., the application of scientific knowledge to the practical aims of human life), is clear to a reasonable extent. Economic Theory insights go beyond the lexical comprehension and bring us closer to the dynamics of the organized world of firms, markets and the legal system.

Details show that the insights of this nature are four:

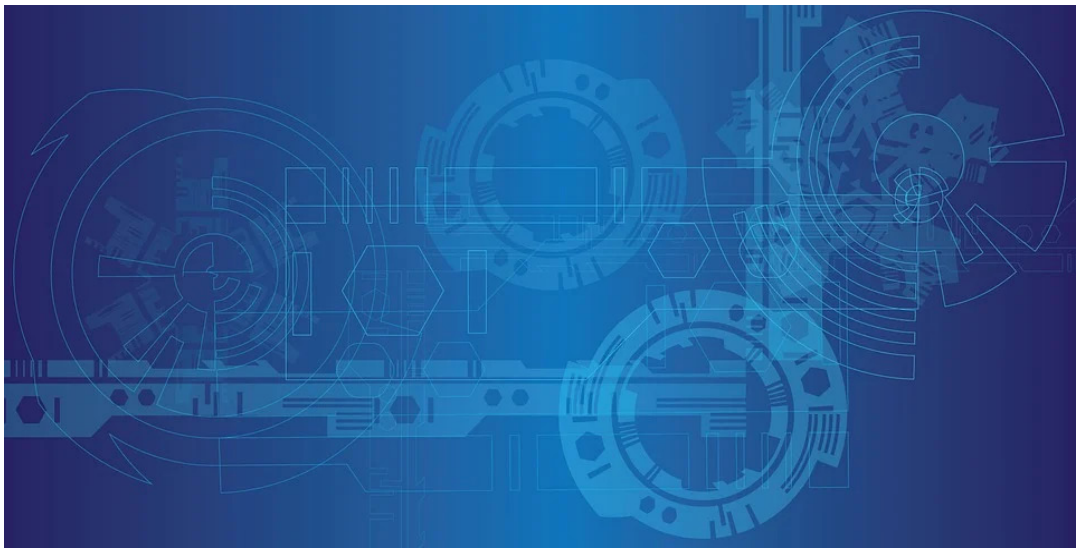
A. Process of Creative Destruction [Joseph A. Schumpeter (1942)]
B. Theory of Innovative Disruption [Clayton M. Christensen (1997, 2003 & 2013)]
C. The vision of Technological Work Structure [Peter F Drucker (1967)]
D. The concept of Entrepreneurial State [Mariana Mazzucato (2013)]

Question
How has Technovation impacted the post-2008 Banking, Financial Services and Insurance (BFSI) world?

Answer
A clarity on the epistemic significance of the year 2008 is needed to discern a meta-policy breaking-point in history. The Global Financial Crisis surfaced, and a white-paper on peer-to-peer electronic cash-system was released in 2008. The first dismantled the entire edifice of the neoliberal policy-precept; the other ushered-in what we now know as the Blockchain Revolution. Both had foundational ramifications for the human good because they turned out to be sharp learning lessons for the post-2008 strategic re-thinking. In the arena of Technovation for the BFSI specifically, we can highlight contemporary relevance of the following:

A. Banking: Situating FinTech Intermediation in Banking
B. Financial Services: IR 4.0-based Business Models
C. Insurance: Delivered Value of the Blockchain Revolution

Question
How has the Technovation Process in the BFSI sector unfolded in India?



Answer
Broad contours of the post-2008 Technovation Process Unfolding can be delineated in terms of strengths and opportunities as well as weaknesses and threats. Strengths have demonstrated five success-points (agility, scalability, designing, integration, and analytical rigour), while opportunities have

functionality been dependent on the seamlessness of reinvention, re-engineering, re-skilling, and collaboration. Weaknesses have surfaced when sovereign concerns on volatility and risks did not adequately get addressed, while threats have emanated when States lost their moral edge on regulation.

A. FinTech Intermediation in Banking in India

FinTech Intermediation in Banking in India has been an endeavor in which all the stakeholders have behaved with remarkable maturity and insight. We can understand this in the context of the challenge spelt out succinctly in the Bali FinTech Agenda (2018) that policymaking shall have to strike the right balance between innovation and integrity. Governments were also cautioned to show policy vigilance on the adoption process to ensure that economies remain inclusive and resilient so as to capture full benefits.

B. IR 4.0-based Business Models for Financial Services in India

India has an open, innovative and dynamic financial services sector. It is a cumulative creative achievement of the State and Society which, however, shall enter a historic phase only when systems gather further agility and reform-input to respond to the exponential unfoldings of IR 4.0. There is no other way to harness a creative revolution of disruptions and fusions. IR 4.0 business models today have acquired a potential to be of utmost use-value in public interest. Time has come now to frame IR 4.0 National Policies by encouraging a balancing discourse on economic stability, governance principles, fair competition, and planned workforce transitions.

C. Delivered Value of the Blockchain Revolution for the Indian Insurance Industry

2014 was a turning-point for ongoing Blockchain Revolution when research on the subject shifted its focus-balance from "crypto-currency" profiteering-mania to other business domains of potential use-value. In 2015, the Ethereum Frontier network was launched, enabling developers to write smart contracts and decentralized apps that could be developed to a live network. Another development of public-interest significance was also in 2015 when Linux Foundation launched the Hyperledger project and nine major investment banks joined forces to form the R3 consortium, exploring how blockchain could benefit their operations. The Public-Interest phase of the Blockchain Revolution since 2015 has gone on getting strengthened in a really big way.

The Blockchain innovation landscape in the insurance industry has grown from smart contracts to proof-of-stake systems in just ten years. Within underwriting, the technology has transformatively helped reduce costs and sharpen risk assessment. It also has by now a proven potential to radically enhance client onboarding, fundamentally alter claims submission processes, and promptly detect frauds. In combination with the Internet of Things and Artificial Intelligence, Blockchain Technology further strengthens automation of insurance processes to emerge as a proposition for a paradigm shift in the industry. Revamping of India's health insurance sector is being attempted; Blockchain in this endeavour has a huge capability to generate stakeholders' trust with growth.

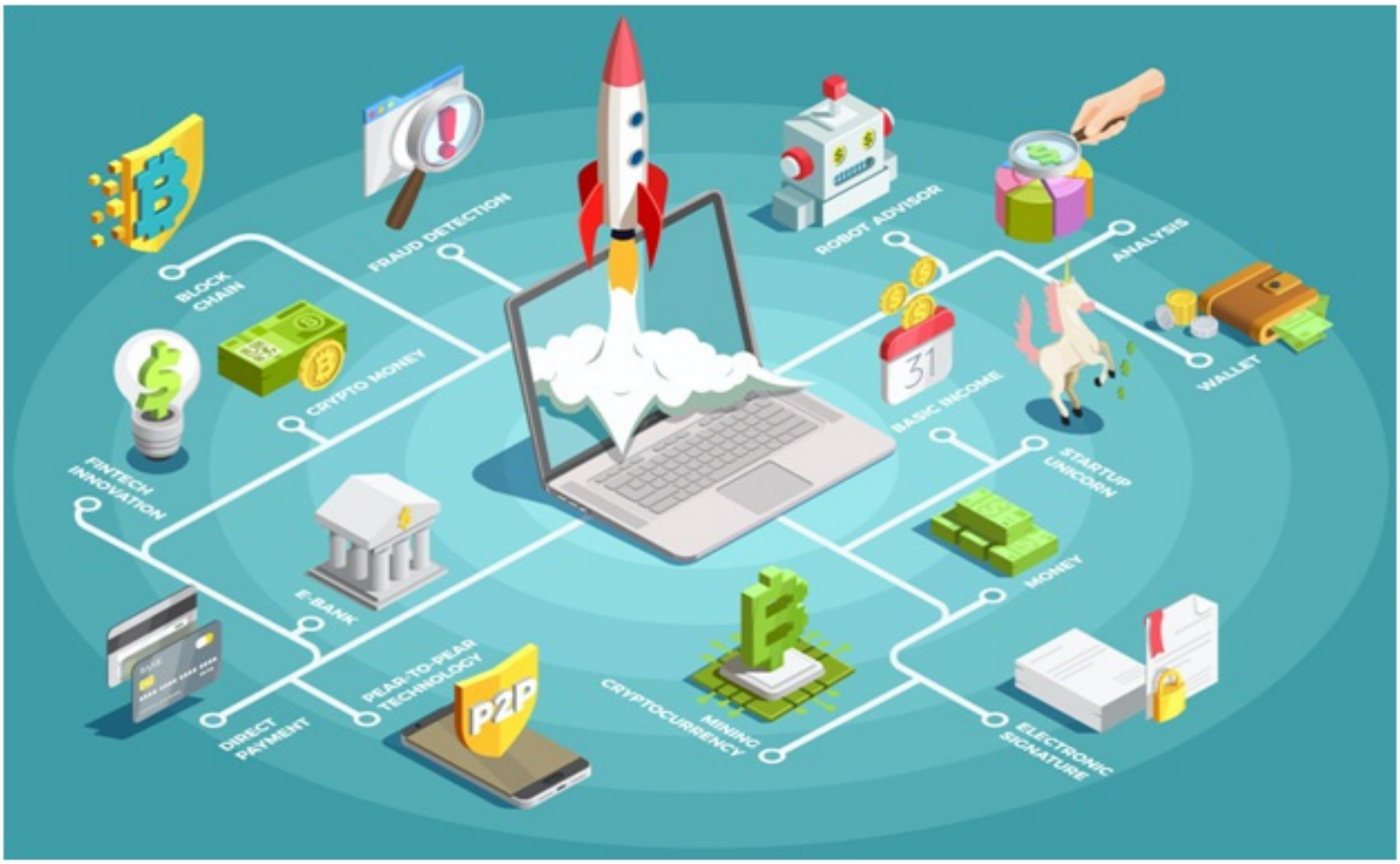
Question
What should be India's vision on the Next Steps for the BFSI sector?

Answer
A. Blockchain Technology

Paras 111 (Central Bank Digital Currency) and 131 (Scheme for Taxation of Virtual Digital Assets) of Finance Minister's Budget Speech dated 1.2.2022 are important decisions of the Government of India. They indicate two of the Next Steps fairly well and are in tune with the global moral concerns. It has to be seen how things within the country work out during FY 2022-23 and how systematically policy-options get narrowed towards a meritorious resolution.

B. FinTech Risk Landscape

FinTech Intermediation in India has acquired excellence and resilience. However, there are some warning-signals on risks. They have been highlighted by the Bank for International Settlements [Implications of FinTech Developments for Banks and Bank Supervisors (February, 2018)]. Newer responses to disruptions and fusions in markets have emerged since then. Laws on FinTech Regulation therefore, need a study and review by the Law Commission of India.



C. Economics of Technovation

Attention of policy establishments has been drawn to innovation economics insights that view productivity directly linked to the growth of innovation, treat innovation as an emancipatory public value, and recommend investments in human capital far above the usual residual thresholds. We get a glimpse of this insight in the writings of Paul Romer and Mariana Mazzucato. India should use these for reforming its IR 4.0 strategies of growth and transition.

D. Business Model Innovations

Firms within nations need to evolve reform-sensitive multi-faceted business models to optimize opportunities, integrate systems and networks, and determine performative values. Business Models, in International Financial Reporting Standard 9; Financial Instruments of the International Accounting Standards Board, have acquired an accounting method dimension too. It is a silent revolution in banks' business models and should be implemented early.

E. Competing on Big Data Analytics

India's public sector banking-reform strategy EASE 4.0 has a strategic component on big data analytics. It's key document (August 26, 2021) highlights the need to accentuate the efforts taken till now and invest in building dedicated teams for mining and leveraging big data. Big Data Analytics is the new science of winning. We have to keep our agile pool of competent manpower ready for the requirements of IR 4.0.■

Author

Dr Amitabh Rajan

(The author is a retired IAS Officer of 1979 batch. At present, he is the Chairman of Reserve Bank of India Services Board)