

## Chapter 6

# Digitalization of the Financial Sector: New Opportunities and Challenges During the COVID-19 Crisis

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### **ABSTRACT**

*Digital finance emerges and grows along with the environment of the unlimited integration of information technology and finance. This led to a shift from the traditional way of performing finance in different areas to another digital one. With the ongoing evolution of technology, financial innovation has made new inventions. More intelligent digital finance has emerged, which creates new opportunities and facilities. The COVID-19 pandemic has accelerated global digital transformation by altering businesses' and consumers' relationships with digital technologies in months. Digital finance becomes a necessity and offers previously unseen opportunities. The digitalization process also poses new challenges and risks which require a continuous update of regulations set by supreme committees and institutions to safeguard national security. Strict legal law is needed to strengthen trust and confidence in using e-services. Progress in three key areas will boost the prospects for broader adoption of digital finance, crypto, and decentralized finance (DeFi) markets.*

### **INTRODUCTION**

The shifting of financial activities to a digitally connected world is known as the digitalization of the economy, and it is associated with a considerable changes and updates in many areas, notably the finance sector. The International Finance Corporation's strategy for promoting private sector growth in any country includes two key objectives: stimulating the digital economy and increasing financial inclusion.

In the domain of finance, technological advancement is nothing new, but digital revolution has greatly enhanced system connection, processing power and cost, and newly created and usable data. The manu-

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facturing of financial services could be broken down as a result of the greater information exchange and decreased transaction costs by technology.

The idea of a “technological revolution” has the benefit of marking people’s minds, but it also runs the risk of making those minds insensitive to subtleties. It appears that the financial sector has always been guided by technological advancements, and from this perspective, the age of “digitalization” of financial activities fits into a continuity rather than a breakdown. The way businesses are conducted has changed as a result of digital transformation and the incorporation of new technologies. The mechanisms used to deliver banking and financial services and products are increasingly more secure and open. The huge, rapidly expanding pool of acquired data is the most beneficial byproduct of digitization. Big data analytics are now possible thanks to advanced computing. Application program interface (API) and social media, mobile, analytics, and cloud (SMAC) technologies have made it possible for various data streams to communicate with one another very effectively. Currently, businesses of all sizes, from start-ups to multinational organizations, utilize financial technologies. The new Digital ecosystem develops new business models that offer new services, new assets, new opportunities, new types of risk and performance data, new job functions, and ultimately a new vocabulary are all part of this.

This chapter looks at the scope and importance of digital finance development, by developing a multi-covered framework to explore the embedded architecture and the diverse digital finance areas. It explains, further, the benefits and new challenges faced by digital finance under different aspects. Moreover, the increase in digital finance during the COVID-19 crisis will be analyzed. Finally, we will deal with the efforts made by regulatory bodies to minimize risks and insecurities generated by digital finance.

## **SCOPE AND EVOLUTION OF DIGITAL FINANCE**

As a disruptive force in the financial industry, digital finance has the potential to increase economic development, efficiency, and financial inclusion. However, structural ruptures may have had a substantial impact on the trajectory of acceptance of digital banking because the adoption and dissemination of digital finance have not been consistent across different nations and regions.

A structural change is a substantial change to the basic framework of an economic or financial system, such as one brought about by adjustments to market conditions, laws, rules, or technology. Depending on how they influence the incentives, possibilities, and risks faced by individuals, organizations, and politicians, these breaks may facilitate or impede the adoption and expansion of digital finance.

The adoption and expansion of digital money can also be determined by the government’s actions. Governments may, for instance, set up regulatory frameworks that promote innovation and competition while safeguarding consumer interests from possible harm. To increase access and raise awareness of digital money among disadvantaged individuals, they can also invest in infrastructure and digital literacy programs.

Technological developments as a new potential for the adoption of digital finance have been opened by technological developments in fields like mobile banking, e-payments, and blockchain. Digital finance may be more widely adopted and used in economies with a high level of technological proficiency and digital infrastructure deployment. Financial services are changing due to digital innovation. The globe has witnessed the arrival of recent financial technology innovations like mobile money, peer-to-peer (P2P) or marketplace financing, Robo-advice, assurance technology (insurtech), and crypto-assets. Dif-

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