Crossing the Digital Divide in Financial Services Marketing – A Study

***Dr.Shailaja.S.M. Associate Professor and Co-ordinator, Dept of Commerce, SSA G F C College, (Autonomous) Bellary**

Abstract

This paper captures the trends, similarities and patterns in the activities and movements of the Indian Stock Market in comparison to its international counterparts, banking and financial institutions in national stock exchang**e**. Empirical studies examining the relationship between financial sector development and economic growth without including non-bank financial institutions (NBFIs) will likely generate biased empirical results. This study provides evidence that NBFIs can have a statistically significant negative impact on economic growth using cross-country data for both emerging and advanced countries. This finding suggests that these non-bank institutions, often loosely regulated, may introduce an excessive level of risk into the financial sector and the general economy. It is consistent with the current global financial crises where NBFIs, such as investment banks and insurance companies, introduced an excessive level of risk into the global economy.

Hence, policy-makers may need to consider more timely and effective regulation of NBFIs and insure that adequate transparency and disclosure is provided to all financial markets participants. Modern theories of finance, having taken into account imperfections in the capital market and transaction costs, have put in the centre of their analysis the relationship between investment decisions and financing decisions. The importance of financial systems is also documented by a number of empirical studies which have shown the positive impact of financial development on economic growth and development. Looking for an appropriate model of a financial system the managers of transition are inevitably confronted with the diversity of contemporary institutional arrangements in this domain. Therefore, echoing western discussion there is a budding debate in CEEC about the relative role of the stock market and of the banking system in financing investment and controlling management. According to early declarations of intentions by Central and East European governments there was some eagerness in these countries about quickly establishing and heavily relying on the stock market: often seen as the symbol of capitalism, it was considered as the ultimate confirmation of international respectability and sometimes even as the real goal of privatization. It is not always easy to separate different functions of financial systems and in what follows we shall not be able to strictly stick to this analytical approach. Close interrelationships between the problems of finance, information and control notwithstanding, we shall concentrate on the aspects of information and control mentioning only occasionally the issue of finance.

Key words: economic growth, non-bank financial institutions, risk, regulation, banking, finance.

Introduction

It is obviously important for firms to be able to raise finance externally but, according to our understanding, what firms primarily need at the first stage of restructuring characterized by pervasive uncertainties, is good judgement about alternative investment opportunities. This is why information generation and the issue of corporate control take a paramount importance. As far as investment financing is concerned, it is indeed striking that in advanced countries stock markets play a negligible role: retentions strongly dominate all other sources of finance and if corporations use external finance, this is largely debt, not equity. However, CEE countries should look not only at the experience of developed countries. More relevant may be the pattern of financing in developing countries which is quite different: corporate growth is due much more than in developed countries to external finance and new equity issues play an important role. So securities markets contribute more to industrial financing in developing countries than in mature economies. Also, the data on the financing of American firms since the beginning of the twentieth century show that the importance of new equity issues is diminishing with time (Taggart (1985) quoted in Singh and Hamid (1992)). This suggests that the German nineteenth century development cannot be generalized and should be considered rather an exception than a rule. Additionally, the whole debate on the relative superiority of one system over another seems somehow anachronistic if we look at recent evolution in different countries: there is a growing awareness that both systems are not working well any more and the process of adaptation clearly shows signs of convergence. On the one hand, in the US, there is a lot of talk about two problems linked to the separation of ownership and control: one is the alleged passivity of shareholders and the resulting undermonitoring of managers, another is the distortion of managerial incentives by takeovers. It is largely understood that takeovers alone, that have been notably criticized for short termism and are considered as costly and imperfect, cannot be relied upon to monitor and discipline corporate managers.

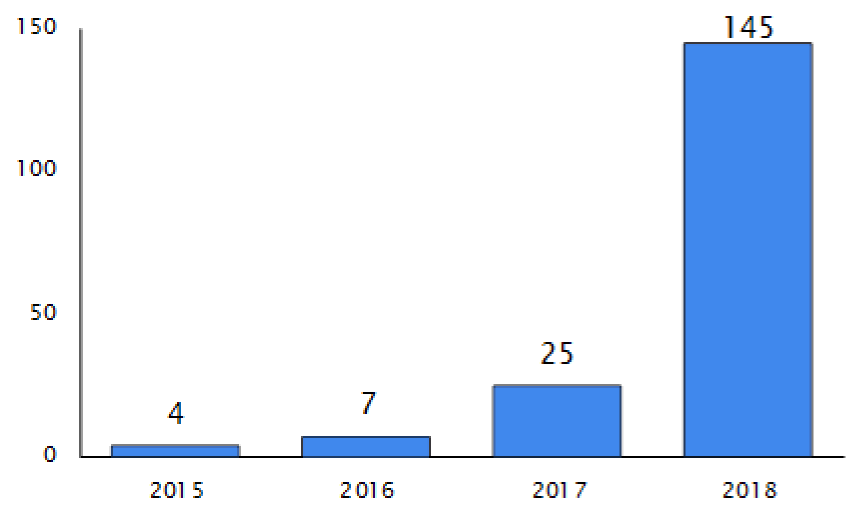
To encompass such situations the term relational investing has been created. The rationale for relational investing is based on a number of theoretical works (some of them will be referred to in the next section) which insist on the costs of takeovers and on the advantage of introducing closer links between owners and corporate governors. After the period when the mere threat of takeover was considered as enforcing efficiency in the management of corporation (Fama, 1980) and the spectacular increase in the number of takeovers in the 1980s, we can observe a swing of the pendulum: the legal environment has changed in favour of incumbent boards (poison pills, state antitakeover statutes) and at the beginning of the 1990s hostile bids are less common than in the 1980s. On the other hand, in Germany the relationship between finance and industry is becoming less close, several companies deciding to open up their until recently strongly interlocked capital structures and control systems.

The German firms seem to be discovering the virtues of public quoting. The long-term relationships established between firms and banks (and also between firms) are considered as beneficial in terms of providing commitment and trust but less so in imposing pressure on managers. Edwards and Fischer (1991) show that German supervisory boards exercize limited control over management boards. Symbolically it is important that a firm such as Daimler Benz has become the first German company to list its shares on the US stock exchange and follow American accounting standards. The tendency towards convergence of the previously quite different financial systems will probably be further reinforced by demographic trends. It seems that the way social security is financed has an important impact on the form of financial system. In Germany, the growing pension burden (and elsewhere) can contribute to an important change in the financial system. In order to avoid the possibility of a collapse of the pension system it may become necessary to shift the burden from the public to the private sector. The emergence of large private retirement funds may modify the functioning of the capital market: insisting on financial returns they may bring about the breaking down of the links between the corporate and the financial sectors. The Anglo-Saxon big pension funds, because of their growing size are increasingly bound to become more actively involved in corporate governance: instead of constantly changing their investment portfolio, they will have to take a more active position and exercize some pressure on underperforming big companies

Objective

This paper explores stock market analysis in banking and financial institutions in national stock exchange where exchanges to prove that the Indian markets have become more integrated with its global counterparts and its reaction are in tandem with that are seen globally.

Cybercrime In Finance



Reports of data breaches by financial services companies

Data breaches involving financial service firms increased by [480% from 2014 to 2014](). With each attack costing financial institutions millions, innovative solutions are needed if we are to avoid a repeat of the lawless days of the Wild West.

Whatever cybercrime solutions emerge to protect financial services, blockchain technology must be the foundation. Period.

As more and more institutions adopt distributed ledger technology (DLT), blockchain will become the de facto solution to keeping financial data secure while at rest.

Integrating DLT with existing financial infrastructures poses some serious obstacles that must be overcome. Even so, we are past the point of asking whether blockchain is the holy grail of financial data security. It is.

Regulatory Compliance In Finance

The ever-changing regulatory environment poses a constant challenge for financial institutions of all types.

Regtech is an emerging industry that can help ease the burden of compliance. By using the latest FinTech technologies to address regulatory compliance, RegTech startups are bridging the gap between regulators and the financial service industry.

Automated reporting, automated audits, and process streamlining are only a few of the benefits offered by RegTech applications.

Big Data Use In Finance

Big data provides both opportunities and obstacles for financial service providers. Tapping into social media, consumer databases, and even news feeds can help banks better serve their customers, while better protecting their own interests.

But sorting through torrents of unstructured data for useful information is no small undertaking. It requires powerful data analytics technology if institutions are to reap a benefit.

Fortunately, data analytics solutions are emerging with the potential to transform asset management, trading, risk management, and other financial services.

AI Use In Finance

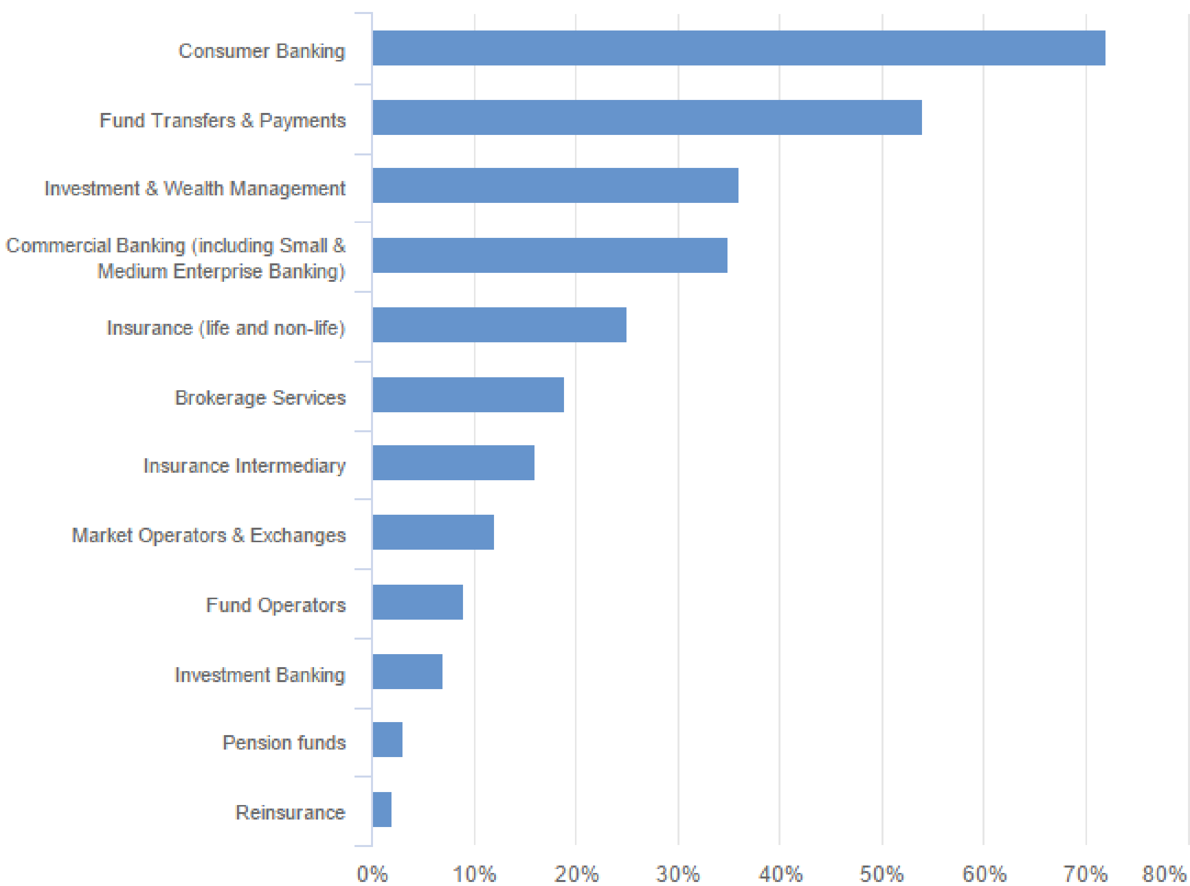
Industry experts believe that AI will transform nearly every aspect of the financial service industry. Automated wealth management, customer verification, and open banking all provide opportunities for AI solution providers.

But that's all been said before. So why should we expect AI to keep that promise now?

Powerful advances in deep learning technology are paving the way for AI. In fact, if you have been alerted by your bank of suspicious activity on your account, you have likely already benefited from AI.

The challenge that financial services face is learning how to benefit from the power of AI, without being victimized by it. In R&D labs across the world, that question is being pondered at this very moment.

5. Fintech Disruption Of The Financial Service Industry



Penetration of Fintech among the US Financial Sector (a sample of 1300 companies)

Those pesky little FinTech companies that appeared less than a decade ago have not gone away, as many in the banking industry had hoped. On the contrary. Many have matured into formidable rivals for customers and the cash they bring to the table.

Realizing that partnering with these tech-savvy startups might be more prudent than opposing them, 64% of financial service leaders say they plan to collaborate with FinTechs in the future. Wise move.

Customer Retention In The Financial Services Industry

Competition for financial service clients has never been fiercer. While brand loyalty may not be dead, it is definitely on life support.

What matters to most customers in this year is greater personalization, more automated services, and easier access to services. Institutions that can deliver all three will capture their share of the market.

Key to not losing the battle is recognizing that customers are less concerned with brand familiarity than getting the services they want. Providing customers those services is key to client retention.

Employee Retention In The Financial Service Industry

Today's financial service companies not only find it difficult to attract customers, but they are also finding it difficult to attract employees.

A lack of qualified talent to fill new IT roles, and a millennial workforce that shuns long-term employment, are leading factors in finding good help.

Institutions that want to attract and retain a qualified workforce must change their philosophy. No longer is it enough to offer good pay and benefits; workers now expect employers to nurture a culture that is accommodating to the values and lifestyles of the employee.

Change is necessary if stable and qualified workforces are to be achieved. But don't expect it to come easy.

Blockchain Integration In Finance

We talked earlier about blockchain as a key component in the battle against cybercrime. But data security is not the only application for blockchains in the financial sector.

Far from it, cases across the globe are already proving the value of blockchain in a wide variety of banking and investment applications. From solving challenges faced by investment banks to helping customers make safer payment transactions, the list is growing daily.

Having said that, industry-wide adoption of blockchain is unlikely to occur until we reach a tipping point in the maturity of the technology. When that will happen is anyone's guess.

Customer Experience In The Financial Services Industry

CX isn't just a buzzword, it is one of the most important issues facing firms in the financial services industry. Banking customers, today, expect banking to be mobile, with a la carte services, and they don't care if the bank is a FinTech no one ever heard of.

Changing old-age traditions will take time and money, but mostly open mindedness.

Crossing The Digital Divide In Financial Services Marketing

Success in the era of digital banking means more than having a mobile app. It means digitizing your entire brand. How do you do that? You shift your advertising campaigns from conventional ad media to digital channels. Which is another way of saying you reach your target audience where they are today, rather than where they were yesterday.

Of course, social media exposure is necessary, but you need more than a Facebook ad. You must tap big data and AI to help locate potential customers, and to deliver customized offers in real time.

Investment banks and commercial banks represent two divisions of the banking industry, and each type provides substantially different services.

Investment banks expedite the purchase and sales of bonds, stocks, and other investments, and aid companies in making initial public offerings (IPOs) when they first go public and sell shares. Commercial banks act as managers for deposit accounts belonging to businesses and individuals, although they are primarily focused on business accounts, and they make public loans from the deposited money they hold.

Since the financial crisis and economic downturn beginning in 2008, many entities that mixed investment banking and commercial banking have fallen under intense scrutiny. There is substantial debate over whether the two divisions of the banking sector should operate under one roof or if the two are best kept separate.

KEY TAKEAWAYS

- Investment banks and commercial banks provide different services and specialize in different financial activities.
- Investment banks underwrite new debt and equity securities, help with selling securities, and drive mergers and acquisitions, reorganizations, and broker trades.
- Commercial banks make loans to people and small businesses and offer checking and savings accounts and certificates of deposit.
- Most financial services firms operate as either an investment bank or a commercial bank, although some combine functions.

Investment Banks

Investment banks are primarily financial middlemen, helping corporations set up IPOs, get debt financing, negotiate mergers and acquisitions, and facilitate corporate reorganization. Investment banks also act as a broker or advisor for institutional clients.

Big investment banks include JPMorgan Chase (JPM), Goldman Sachs (GS), Morgan Stanley (MS), Credit Suisse (CS), and Deutsche Bank (DB). Clients include corporations, pension funds, other financial institutions, governments, and hedge funds. Many investment banks also have retail operations for small, individual customers.

Commercial Banks

Commercial banks take deposits, provide checking and debit account services, and provide business, personal, and mortgage loans. They also offer basic bank products such as certificates of deposit (CDs) and savings accounts to individuals and small businesses. Most people hold a commercial bank account, rather than an investment bank account, for their personal banking needs. Commercial banks largely make money by providing loans and earning interest income from the loans. Customer accounts, including checking and savings accounts, provide the money for the banks to make loans.

Customers like commercial banks because their money is secured up to $250,000 per depositor and is regulated by the government, but the interest earned on accounts is little to nothing, particularly compared to mutual funds, stocks, and other investments.

Key Differences

Commercial banks are highly regulated by federal authorities such as the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC).2 Commercial banks are insured by the federal government to maintain protection for customer accounts and provide a certain level of security.1 Investment banks differ because they are much more loosely regulated by the Securities and Exchange Commission (SEC).3 The Commission offers less protection to customers and allows investment banks a significant amount of operational freedom.

The comparative weakness of government regulation, along with the specific business model, gives investment banks a higher tolerance for and exposure to risk. Commercial banks have a much lower risk threshold. Commercial banks have an implicit duty to act in their clients' best interests. Higher levels of government control on commercial banks also decrease their level of risk tolerance.

Special Considerations

Historically, institutions that combine commercial and investment banking have viewed with skepticism. Some analysts have linked such entities to the economic depression that occurred in the early part of the 20th century. In 1933, the Glass-Steagall Act was passed and authorized a complete and total separation of all investment and commercial banking activities.4

Glass-Steagall was largely repealed in 1999.5 Since that time, banks have engaged in both types of banking. Despite the legal freedom to expand operations, most of the largest U.S. banking institutions have chosen to operate as either a commercial or an investment bank.

There are some benefits for banks that combine the functions of investment and commercial services. For example, a combination bank can use investment capabilities to aid a company in the sale of an IPO, and then use its commercial division to offer a generous line of credit to the new business. This enables the business to finance rapid growth and, consequently, to increase its stock price. A combination bank additionally gleans the benefits of increased trading, which brings in commission revenue.

Conclusion

According to a recent survey, only 7% of financial companies have implemented a cloud-based technology stack. The reluctance to adopt technological solutions is understandable. After all, banking did quite well for hundreds of years without them. But the digital banking revolution has begun, and it will not end till the last institution has crossed the digital divide.

Whether your company makes the transition successfully or gets left behind will depend on one thing: do you see digital banking technology as a problem, or the solution?. While banks and non-banking financial companies (NBFC) both are key financial intermediaries, that offer almost similar services to the customers. The major difference between NBFC and bank is that unlike **banks**, an **NBFC** cannot issue self-drawn cheques and demand drafts.Another important point of distinction amidst these two is that while banks take part in the country's payment mechanism, non-banking financial companies are not involved in such transactions.

As finance is the basic requirement of individual's and business's, banks alone cannot cater all the sections of the society. That is why NBFC came into being, both in public and private sector, to complement banks in providing finance to people. NBFC's are mainly established to grant credit to the poor section of the society, whereas the banks are chartered by the government to receive deposits and grant credit to the public. The licensing regulations of a bank are more stringent than that of an NBFC. Moreover, a bank cannot operate any business other than the banking business, but an NBFC can operate such business.

References

1. Debiprasad Chattopadhyaya, History of Science and Technology in Ancient India, Firma K.L Mukhopadhyaya (1986), pp. 486-494
2. Satya Prakash, Founders of Sciences in Ancient India (part II), Vijay Kumar (1989), p.471
3. B.S. Yadav & Man Mohan, Ancient Indian Leaps into Mathematics, Birkhäuser (2011), p. 78
4. M. I. Mikhailov & N. S. Mikhailov, Key to the Vedas, Minsk-Vilnius (2005), p. 105
5. Sures Chandra Banerji, A Companion to Sanskrit Literature, Motilal Banarsidass (1989), p. 59
6. Helaine Selin, Encyclopaedia of the History of Science, Technology, and Medicine in Non-Western Cultures, Kluwer Academic Publishers (1997), p. 977
7. Martin Levey, Early Arabic Pharmacology: An Introduction Based on Ancient and Medieval Sources, Brill Archive (1973), p. 10
8. P. N. K. Bamzai, Culture and Political History of Kashmir - Volume 1, M D Publications (1994), p.268
9. S.K. Sopory, Glimpses Of Kashmir, APH Publishing Corporation (2004), p. 62
10. Krishan Lal Kalla, The Literary Heritage of Kashmir, Mittal Publications (1985), p.65
11. Guang Xing, The Concept of the Buddha, RoutledgeCurzon (2005), p. 26
12. Phyllis G. Jestice, Holy People of the World: A Cross-cultural Encyclopedia, ABC-CLIO Ltd (2004), p. 621

13. Encyclopaedia of Indian Medicine: Historical perspective, Popular Prakashan (1985), p. 100
14. Ramachandra S.K. Rao, Encyclopaedia of Indian medicine : volume 1, Popular Prakashan (2005), p. 63
15. Ram Gopal, Kālidāsa: His Art and Culture, Concept Publishing Company (1984), p.3
16. P. N. K. Bamzai, Culture and Political History of Kashmir - Volume 1, M D Publications (1994), p.261-262
17. M. K. Kaw, Kashmir and It's People: Studies in the Evolution of Kashmiri Society, APH Publishing Corporation (2004), p.388
18. Claus Vogel, Vāgbhaṭa Aṣṭāṅgahṛdayasaṃhitā. The First Five Chapters of Its Tibetan Version, Franz Steiner (1965), p.13
19. Anna Akasoy & co., Islam and Tibet: Interactions Along the Musk Routes, Ashgate Publishing Limited (2011), p.76
20. Richard Pischel, A Grammar of the Prakrit Languages, Motilal Banarsidass (1999), p. 43
21. Satya Ranjan Banerjee, The Eastern School of Prakrit Grammarians: A Linguistic Study, Vidyasagar Pustak Mandir (1977), p. 31
22. Kamaleswar Bhattacharya, India & Beyond, Routledge (2009), p. 2
23. John E. Cort, Open Boundaries: Jain Communities and Cultures in Indian History, State University of New York Press (1998), p.57
24. Kolar Sesha Iyer Nagarajan, Contribution of Kashmir to Sanskrit literature, V.B. Soobbiah (1970), p. 426
25. R.N. Rai, Karanasara Of Vatesvara, Indian National Science Academy (1970), vol. 6, n. I, p. 34
26. Vaṭeśvara, Vaṭeśvara-siddhānta and Gola of Vaṭeśvara: English translation and commentary, National Commission for the Compilation of History of Sciences in India (1985), p. xxvii
27. P. N. K. Bamzai, Culture and Political History of Kashmir - Volume 1, M D Publications (1994), p.269
28. Sheldon Pollock, Literary Cultures in History: Reconstructions from South Asia, University of California Press (2003), p. 112
29. Bina Chatterjee (introduction by), The Khandakhadyaka of Brahmagupta, Motilal Banarsidass (1970), p. 13
30. Lallanji Gopal, History of Agriculture in India, Up to C. 1200 A.D., Concept Publishing Company (2008), p. 603
31. Kosla Vepa, Astronomical Dating of Events & Select Vignettes from Indian History, Indic Studies Foundation (2008), p. 372
32. Dwijendra Narayan Jha (edited by), The feudal order: state, society, and ideology in early medieval India, Manohar Publishers & Distributors (2000), p. 276
33. P. N. K. Bamzai, Culture and Political History of Kashmir - Volume 1, M D Publications (1994), p.269