PROSPECTS OF E-FINANCE IN FINANCIAL SERVICE INDUSTRY

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Abstract

The growth of the Indian economy is depending on the application of new ideas and technologies. E-finance is the one of technology that anyone can manage their finances anytime and anywhere. It delivers state of the art electronic payment solutions and business integration in financial sectors in a secured environment according to the international security standards. This paper is focused to provide information about prospects of e-finance in financial service industry. The main focus of this paper is bringing evolution of e-finance, existing literature reviews, e-finance models, platforms, payment process, innovations, and application of e-finance in the financial services industry and showing how organizations could benefit from such technology. It also offers ideas to scholars for further research in this area.

Keywords: Electronic finance, e-banking, e-trading, e-payments, internet finance.

1. Introduction

E-finance is about web-enabled finance function which includes all areas of financial services industry. However, if its true benefits are to be realized, e-finance is far more than just adding a web front-end to financial services. It is about changing fundamentally the value proposition of the finance function by redefining its core activities, changing the interaction mechanism between itself and its prime customers, and moving it up the value chain by creating and assisting others in the organization to create better value for shareholders. Technology enablers play key roles in making the transition to e-finance. The e-finance transformation sees finance change its role from transaction processing to true business partnering, with far reaching implications on interactivity with customers, suppliers and others within the organization. Developments in technology and deregulation are eroding the nature of what has made banks special. On the lending side, e-finance allows non-banking financial institutions and capital markets to reach far more borrowers, including small and medium-size enterprises. On the deposit and payments system side, many deposit substitutes are emerging and many non-banks are offering payment accounts. The purpose and main focus of this paper is to provide, an overview of e-finance, its growth, impacts and future prospects in the financial services industry and e-commerce.

2. Evolution of E-finance

Electronic finance was not born with the advent of the internet. In fact, it dates back to 1871 when Western Union Corporation introduced distant money transfer for the first time. Western Union introduced the first consumer charge card in 1914 and the first prepaid card in 1993. In 2006, the company handled 147 million consumer to consumer money transfers and 249 million consumers to business transactions. Although e-finance has existed for a long-time, the internet, the web, and telecommunication technologies dramatically changed e-commerce and e-finance since the mid-to late 1990s. Institutions developed new web-based platforms to deliver financial services quickly and efficiently. The trend began with services such as banking, insurance and trading services and moved to other institutional activity areas including foreign exchange and cash equity trading. The key drivers of the evolution of e-finance include:

Technology: Computer, internet, and telecommunications technologies enabled business to be conducted in a fast, efficient and secure way.

Globalization: Worldwide liberalization of trade and investment facilitated the phenomenal growth of global business including the internet based e-business and e-finance.

Regulations: Both deregulations of the finance industry and re-regulations of e-commerce facilitated the growth though in some areas lacking behind technology.

Entrepreneurship: Creativity allowed entrepreneurs, start-ups and seasoned companies to break ‘old economy’ traditions and deliver business solutions through new, exciting and often radically different structures.

Capital: Capital provided the financial means to put these technical and human wheels in motion.

Competition: The above factors created a globally fertile and competitive environment and pool of talents to compete for introducing new technologies, concepts, and models.

3. Literature review

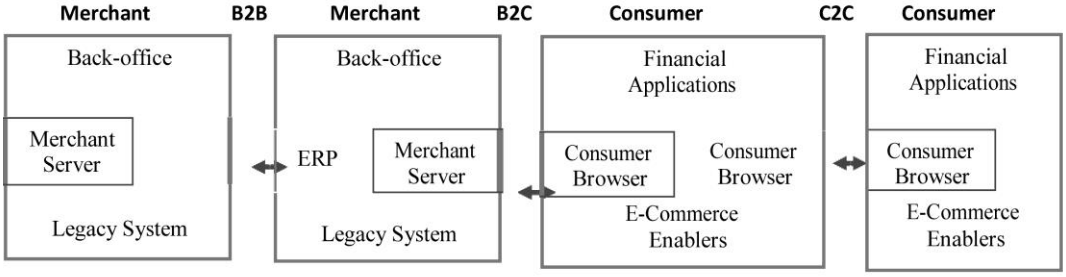
Dandapani, et al. (2005) and Dandapani (2004 and 2001) examined the growth of virtual banking with a focus on the economics of their business model. They explored both the impetus and constraints for their growth. While the online banking by brick and mortar banks increased dramatically, only a few pure play virtual banks turned into brick and mortar banks to survive.

Manuchehr Shahrokhi (2004, 2002, and 2001) provided a comprehensive overview of the applications of the internet and IT technology to financial services industry. He documented the evolution, growth of e-business and e-finance and their impacts on the global economy.

4. E-finance model

The e-finance sector can be divided into five broad categories: Business-to-business, business-to-consumer, consumer-to-consumer, technical infrastructure to support the e-finance platform, and global institutional and regulatory environment that facilitate the functioning and growth of e-commerce and e-finance. These categories are depicted in Figure 1 which provides the platforms for e-commerce and e-finance.

FIGURE 1. E-COMMERCE – E-FINANCE PLATFORMS



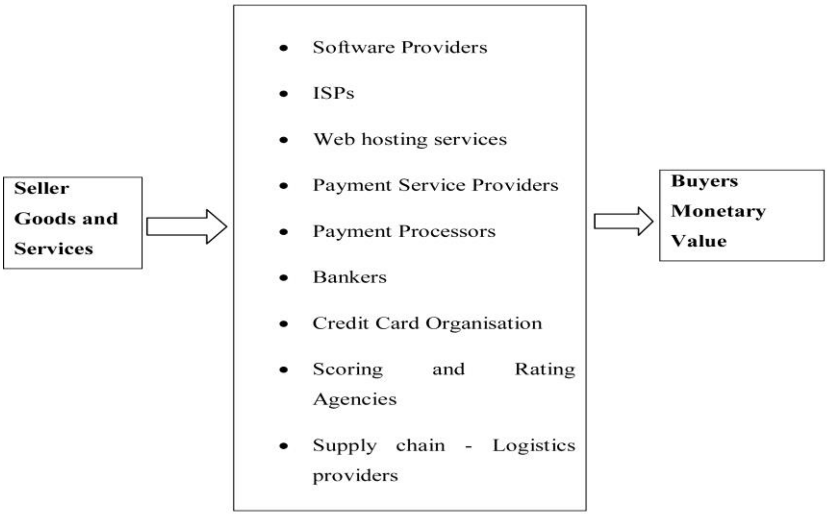
Source: Knud Böhle, (2002) and Author

The B2B sector includes services in corporate finance, investing, institutions, and international finance issues such as foreign exchange, derivatives and new issues and back-end processing. The B2C sector includes services such as online trading, basic online banking, electronic bill payment, mortgages and insurance. The C2C sector includes payment for online transactions and electronic money transfers. The fourth component is the technological services that support the e-finance platform integrating the IT architecture of the firm with the internet platform as well as older legacy systems. The infrastructure services are key enablers of the industry and are designed to create, migrate and support e-finance. Finally, regulations influence e-finance products and services.

5. Trends in the B2B financial service sector

B2B providers have enhanced the value proposition of institutional financial services by giving their institutional clients broader product selection, faster execution, increased price transparency, tighter margins and greater cost savings due to reduced transactional costs. The internet has enabled legacy institutions to handle increasingly complex transactions involving many business partners. By adopting universal standards for loan terms and lending parameters, the finance industry enabled more customization within the open marketplace. The e-finance technologies enhance the long-standing evolution of the financial services sector from one dominated by financial intermediaries to one dominated by capital markets and financial institutions that hold marketable securities. Traditional financial intermediaries transform illiquid, hence non-marketable, assets into liquid liabilities. This role has become less important over time as the liquidity of financial assets originated by intermediaries has increased. Another important issue is that disintermediation and re-intermediation allow the financial system to share and spread risks. Figure 2 highlights the e-commerce and e-payment intermediaries.

FIGURE 2. E-COMMERCE AND E-PAYMENT INTERMEDIARIES



Source: KnudBöhle, (2002). *Integration of Electronic Payment Systems into B2C Internet Commerce – Problems and Perspectives* –Background Paper No. 8; Electronic Payment Systems Observatory (ePSO); April 2002.

The ability of the internet and e-commerce technology to customize service, or components of service, is a major factor behind the proliferation of sophisticated services such as investment planning, tax and estate planning and tailored investment accounts. By using the internet to bundle products with related information and services, creative companies can improve the effectiveness and efficiency of their clients' businesses. This new delivery mechanism enables these companies to forge a strong, long-lasting client relationship that de-emphasizes product price and exchange-based transactions. Many ATS market structures/mechanisms have been created over the past few years through web-based technologies. The financial world is edging closer to the notion of liquid, 24-hour global trading across markets and products. Online institutional trading in equities, bonds, currencies, commodities and derivatives is readily available through the corporate storefronts of major institutions. The internet and of internet start-ups have had dramatic effects on equity markets around the world. Like other areas of finance, electronic funding such as IPO and venture capital have benefited from the IT technologies. In the past decade, WR Hambrecht & Company has pioneered and spread the use of online Dutch auction and Open IPOs methods. The auction and open methods is the way IPOs are priced and allocated. In the traditional method, underwriters collect bid price and size interest from clients and then determine allocation. In Open IPO and Dutch auction, clients submit price and size interest electronically.

6. Trends in B2C financial service sector

The internet industry that includes telecommunications and technology enablers let traditional financial institutions augment their services and introduce new products. However, a host of independent websites offer free financial Informediaries to individuals. Examples include: Bloomberg, CNN/Money/Fortune, MSN-MoneyCentral, Hoovers, IPO Home, IPO Resources on ZDNet, Google and Yahoo Finance, and Free Real Time, etc. The introduction of online trading and associated tools such as quotes, research and portfolio management modules, has been a boon to investors seeking self-directed financial management. Electronic banking is the delivery of banking services through the use of electronic communication, primarily the internet. E-banking may include ATMs, wire transfers, telephone banking, electronic funds transfers and debit cards. The essence of wealth management relates to personal financial advice, planning and execution, many clients do not want to replace these personalized services with web-based products and interfaces. Accordingly, B2C wealth management platforms give clients web tools that promote additional flexibility and convenience. Such ventures allow authorized customers to access account, market information and verify the order status and overall portfolios. The internet has laid the foundations for an online insurance market. The insurance industry has increased its online presence as consumers have gained comfort with the process and insurers have determined how to manage channel conflict and resolve regulatory issues.

7. Trends in C2C sector

An online trading community exists to provide its members with a structured method for trading, bartering, or selling goods or services. The earliest trading sites known to the internet include eBay, Amazon, Yahoo, and later Google and many others have revolutionized traditional business models, have created new ones that are knowledge and technology efficient. These communities are sometimes described as the electronic equivalent of bazaars, flea markets, or garage sales.

8. Conclusion

The evolution and growth of e-finance has been phenomenal during the last decade. Financial services industry was among the earliest adaptors of information technology. E-finance sector of e-business are interlinked. E-business in the financial services industry has been slow to evolve because of complexity of inter-organizational relationships, regulations, security concerns, lack of standards, and conservative principles. Technological developments should reduce the cost and enhance the security and convenience of dedicated digital media. There is a clear need to ensure open markets, minimizing the effect of switching costs, and police the pricing structures of both new and old transaction media. Regulation and supervision of payments markets should do much to promote the development of digital money. E-finance can streamline traditional business processes and deliver value-added information services by using internet-based technology.

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