

Digital Finance

Introduction to digital finance

Lecture 1

SERVICES BANKS HAVE OFFERED THROUGHOUT HISTORY

- CURRENCY EXCHANGE
- MAKING BUSINESS LOANS
- OFFERING SAVINGS DEPOSITS
- CERTIFICATION OF VALUE
- SUPPORTING GOVERNMENT ACTIVITIES WITH CREDIT
- OFFERING CHECKING ACCOUNTS (DEMAND DEPOSITS)
- OFFERING TRUST SERVICES

E-FINANCE

➤ Electronic Finance transaction is a financial transaction that depends on the internet or a similar network to which households or non-financial enterprises have access to bank.

➤ Global integration and deregulation are dramatically changing the structure and nature of financial services.

World Bank study in 2000:

E-finance has great potential to improve the quality and scope of financial services and expand opportunities for covering trading risks and can widen access to financial services for a much greater set of retail and commercial clients by offering more cost effective services

Key Drivers of Evolution of E-finance

1-Technology: Computer, Internet and Telecommunication Technologies enabled businesses to be conducted in a fast, efficient and secure way.

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

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

Key Drivers of Evolution of E-finance (Cont.)

4-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.

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

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

Difficulties in transition

- Could lead to significant losses
- Adopting a new way of life
- Whole range of policy issues should be rechecked

Ex: Future of branches, marketing of services

- Large organizations are very often reluctant to undertake radical innovation.
- They are generally blindsided by technological changes that alter their existing markets, procedures and systems of work.

STRATEGIC RATIONALE

Why an organization should launch E-banking?

- To protect and enhance the organization`s reputation for innovation
- Added value for customers
- Means for attracting customers
- Actions taken by competitors
- Potential to develop customized services

Internet substitute for traditional transactions

- 1-Online Banking:** It includes automatic payroll deposit, automatic bill payment and transfer funds from one account to another, viewing account status and transaction history.
- 2-Purchasing by credit card:** In these transaction credit card numbers are sent via internet from buyer to the seller
- 3-Brokerage transactions:** These transactions substitute the internet for the telephone or in person transaction.
- 4-Investment research:** Investors may perform research into companies whose shares they are considering for purchase or sale, future contracts or other derivatives.
- 5-Filing of company reports and tax returns:** Companies can file required reports with government agencies via internet.

E-FINANCE MODELS

- The E-Finance sector can be divided into five broad categories:

1-Business to business (B2B)

2-Business to Consumer (B2C)

3-Consumer to consumer (C2C)

4-Technical infrastructure to support the e-Finance platform

5-Global, institutional and regulatory environment that facilitates

E-FINANCE MODELS (CONT.)

1-Business to business (B2B):

Internet platforms created by institutions to serve other institutions.

- In B2B sector, businesses supply information, goods and services to other businesses and develop business related exchanges to serve other businesses.
- B2B business exchanges bring together companies from **identical** (vertical) or **different** (horizontal) industries.¹⁰