

# Digital Finance

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## Crowdfunding

### Lecture 2

# **Trends in B2C Financial Service Sector**

**A-**Customer-centered retailing

**B-**Online Trading

**C-** E-Banking - Online Banking

**D-** Personal Finance/Wealth Management

**E-** Insurance and Annuities

# **E-FINANCE MODELS (CONT.)**

## **3-Consumer to consumer (C2C):**

Individuals using the web for private sales or exchange.

- It is a small but emerging sector, is designed to let customers deal directly with one another through mechanisms such as electronic auctions.

## **Trends in B2C Financial Service Sector:**

- **A-Online Trading**
- **B- Trading Circles**

# Adoption of E-finance by the financial service firms

- This section is talking about how different types of financial service firms, depository institutions and security companies have deployed e-finance technologies.

## Financial Intermediaries:

- Banks, insurance companies, mutual funds, finance companies and similar financial service providers are *financial intermediaries*.
- **Disintermediation?**
- **Reintermediation** (information providing companies)

# Adoption of E-finance by the financial service firms

- By the end of 1990s, e-finance technologies affected all aspects of the business of banking and financial intermediation. Depository institutions have used electronic information technologies, for example, to make credit decisions to consumers since 1980s.

**Ex: Credit Scoring:** used by financial institutions to evaluate the loan applications received from the customers.

- Handle large volume of credit applications quickly with minimal labor, thus reducing operating cost.

## Adoption of E-finance by the financial service firms

- The bank communicates with its small business borrower in person rather than with the phone or mail has declined from 59% in 1973 to 36% in 1993. Moreover, the average geographical distance from a bank to its small business borrower has increased from 16 miles during 1973-1979 period to 68 miles during 1990-93 period.
- Transaction cost for a non cash payment is 1.80\$ for a branch, 54 cents for a telephone bank and 13 cents for an internet bank.

# Adoption of E-finance by the financial service firms

**Insurance:** The security underwriting business, the insurance industry has not adopted e-finance technologies largely yet. In 1999 12% of the US insurers used the internet to sell products amounting to 1% of total sales.

**Security Firms:** How securities are issued?

- Investment banks
- Private placement
- Initial Public Offering (IPOs)

## Adoption of E-finance by the financial service firms

- “**Book Building**” is a process by which investment banks assess the demand for a security issuance from a small number of well-connected institutional investors before finalizing the terms of the offering.
- By lowering the search and information costs, however, e-finance technologies may reduce the comparative advantage of the relationship-based approach relative to a more arm’s length process, such as an online auction.
- N ASDAQ

# **ORGANIZATIONS FACILITATING E-FINANCE**

## **1-Society for Worldwide Interbank Financial Telecommunication (SWIFT)**

*SWIFT* provides financial data communication and processing services to support the business activities of worldwide financial institutions for securities, payments, foreign exchange and money markets, as well as trade finance.

**SWIFT** is designed for:

- Eliminating the need for paper-based processes in the financial markets,
- Lowering costs,
- Increasing productivity,
- Reducing cost in the financial service industry

# **ORGANIZATIONS FACILITATING E-FINANCE**

## **2- Automated Clearing House (ACH)**

The ACH Network is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system. ACH payments include:

- Direct Deposit of payroll, Social Security and other government benefits, and tax refunds;
- Direct Payment of consumer bills: mortgages, loans, utility bills and insurance premiums;
- Business-to-business payments;
- E-checks;
- E-commerce payments;
- Federal, state and local tax payments

# **ORGANIZATIONS FACILITATING E-FINANCE**

## **3-Online Trading Community**

Online trading communities exist to provide a structured method for trading, bartering, or selling goods or services. These communities often have [forums](#) and chatrooms designed to facilitate communication between the members.

# ORGANIZATIONS FACILITATING E-FINANCE

## 3-Online Trading Community

These can be further divided into two parts:

- A. Formal Trading Communities** are business run web sites maintained for the purpose of facilitating trades between members. Some of these charge a fee for each successful transaction.
- B. Informal Trading Communities** are lesser-known sites known that specialize in a multitude of services including community trading. Examples include, [IUP](#), [Craig's List](#), [IGN](#).

# ORGANIZATIONS FACILITATING E-FINANCE

## 4- E-Money

E-Money allows payments (including P2P payments) without involvement of a third party during the payment transaction.

- There are two main types of e-money:
  - A. E-cash:** including electronic purses and multi-purpose stored value smart cards and
  - B. Cyber Money (Network Money)** which are prepaid software products used for payments or transfers on cyberspace.

# **ORGANIZATIONS FACILITATING E-FINANCE**

## **5- Price Comparison Service**

On the internet, a price comparison service allows individuals to see lists of prices for specific products. Most price comparison services do not sell products themselves, but source prices from retailers from whom users can buy. Ex:Streetprices

## **6- Value Proposition**

Give reasons why customers choose that firm and not other firms.

# **ORGANIZATIONS FACILITATING E-FINANCE**

## **7- Online Auction Business Model**

- The online auction business model is one in which participants bid for products and services over the Internet.
- The strategic advantages of this business model include fewer time constraints, no geographical constraints, pressure of intense social interaction through large numbers of bidders and sellers, network economies, and the ability to capture consumers' surplus.

# **ORGANIZATIONS FACILITATING E-FINANCE**

## **8- M-Finance: Mobile Banking**

Mobile banking (also known as M-Banking) is a term used for performing balance checks, account transactions, or payments via a mobile device such as a mobile phone.

- In USA, customers mostly prefer E-banking.
- In Japan, they prefer M-banking.