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E-finance Delivery Channels: Impact on the Bottom Line

The last chapter highlighted that there are immense possibilities for Indian banks to seek and expand their customer base. The experience of the National Stock Exchange or the Clearing Corporation of India clearly highlights the fact that we now have an infrastructure in place which is second to none and that we could take advantage of the current difficulties faced by the financial sector in developed countries. In fact, some of the commentators are suggesting that Indian financial institutions do offer a safe and secure environment and that they would rank India as a secure and safe investment destination. However, financial institutions need to be careful and must make sure that in their zeal to take advantage of the present woes of developed nations, they do not tend to be complacent and that they take a hard look at their financials not only afterwards, but also prior to launching a marketing drive. Additionally, they would have to make major changes in their work systems and in the way the workforce responds to these challenges. Fortunately, the IT industry has shown the way world-class services can be offered through a sustained effort and more importantly, a vision.

This chapter begins with the question of return on internet investments. Banks and other financial service providers have invested large amounts of money on technology upgradation and the question assumes a considerable importance as we find that these aspects are not getting the attention they deserve. Next, we look at the specific economic aspects and try to assess the impact on the working of firms. How would it affect the working of the banks/broking firms is a question of great relevance in the context of

our approach to these problems. But this assessment is likely to overlook questions of unmeasured and often important gains to consumers from added convenience, wider product mix and customization that the internet makes possible. The following analysis will have to be viewed under the limitations listed here.

Return on IT Investments

There is a growing awareness that all IT expenditure does not automatically qualify for being described as sound investment. Returns on such investments and consequent improvements in productivity are being questioned. This chapter examines these arguments in some detail as these issues have not received the attention they deserve. Today, worldwide, billions of dollars are spent to support the requirements of the IT industry. However, even after this, many of these firms have shown little results. Unacceptably, a large percentage of the resources expended on IT by all manners of financial institutions, seem to disappear into a veritable black hole. A review of US government expenditure on software shows the extent of such misutilization. Forty-eight per cent of the software projects paid for never fructified. Of those delivered, 30 per cent are never used while 20 per cent are just abandoned. Only 2 per cent are ever used.

The firms that fall too far behind in the IT race stand to lose much more than their competitive advantage. The demise of many distinguished investment banks could, amongst other things, be attributed to the trade-processing systems not being up to the mark.

It must be emphasized that there is no substitute for active senior management support and involvement for IT investments to be beneficial. But certain questions which are far more serious than mere implementation aspects have been raised in the following page. The *Financial Times* in its IT review section (Wates 2003) puts forward the view that 'information technology systems have lost their way and may have failed to deliver what they promised to business. In the use of technology to transform business something has gone wrong'. Somewhere in the 1990s, amid the flowering of IT innovation, something seems to have gone wrong. One could list the following as the likely sources for the problem. The same is now true for the Indian financial institutions.

- The new computing technology (architecture) liberated users from the tyranny of the main frame, but exposed them to a failure of technology management.

- The new client/server architecture transferred the power of its managers, who helped run the departmental processes smoothly. These managers tended to lose sight of the bigger picture.
- The new internet technology did not live alone. IT had to fit into a complex system. For some reason, when the internet came along, the pain of the past was forgotten.
- Components have developed rapidly but critical elements are lacking.
- Technology has not aligned itself with business management. The technology vendors blame the management and management blames the vendors. The fact is that there is a high rate of IT project failure.
- Low utilization of IT assets is another symptom of that malady. Its capacity utilization is barely 50 per cent.
- Last, one could refer to the high cost of maintenance of corporate information systems. 'The proportion of IT budgets in just keeping the lights on and the business running is far too high'(*Financial Times* 2003).

However, these are not insurmountable problems. The development of integrated systems and build-up of industry wide standards could be possible solutions. However, Nicholas Carr, *Harvard Business Review*'s editor-at-large, has raised a still more fundamental issue relating to IT.

Is IT an Infrastructure Technology?

Carr (2003) notes that 5 per cent of the capital expenditure of American companies went on IT initially. In the 1980s, it rose to 15 per cent and by 1990 it had risen to 30 per cent (in India, too, we are witnessing the same trend. A number of banks here have announced the plans to spend crores of rupees on IT in the next couple of years). He further adds that there is a general belief that its potency has increased and that its strategic value has also gone up.

Carr (2003) questions these very assumptions and argues that:

- What gives the resource a basis for sustained competitive advantage is its scarcity and not ubiquity.
- Proprietary technologies may afford advantage for a while. However, infrastructure technologies afford advantages only when they are shared (telephones, roads, and so on).
- Perception of market changes is of value up to a point.

'IT has all the hall-marks of an infrastructure technology' (Carr 2003). IT is first of all a transport mechanism. It is more valuable when shared than when used in isolation.

We do appreciate the weighty arguments put forward. These signals are useful as a warning that a very critical look is necessary before a decision is taken. However, one cannot forget that underinvestment in technology could be a great peril. Further, we must also bear in mind that what technology provides are essentially tools for thought. The organization would have to decide how to use these.

In these matters, smart deployment of funds (where and when to invest) and the timing would alone ensure a sustainable and differential advantage. The FIs have to decide if they should be leaders or should they be followers who wait till the costs come down. These are thorny questions and would need to be looked at with utmost care.

Last, productivity gains come from managerial innovation. Fundamental changes in the way companies do business can come about through technology deployment along with improved processes and capabilities. These alone would account for productivity gains and innovations.

In almost every seminar and discussion group, there is generally a reference to the failure of dot com companies in the year 2000 and thereafter. The fact that the CEOs of such companies made huge profits personally while their companies became bankrupt lends a certain moral indignation to the tenor of discussion.

The failure of the dot com companies could be attributed to a number of factors. The principal one was the exaggerated claims made by them. Let us look at the case of stand-alone e-banks. It was suggested that the negligible transaction costs of these banks would force the traditional branch banking out of business and that we would have banking, but not banks and their branches. With this end in view, lavish amounts were spent on advertising and the basic rudiments of commercial banking were thrown to the wind. The rates charged to the borrowers were less than the ones paid to their deposit customers. The reduced costs could not compensate for such losses. The result was foregone.

There is another aspect and that is perhaps more significant. Obviously organizations with an established customer base and a network of branches could not let go the advantages so easily. They developed their own e-finance channels and what came to be known as a brick–click operation came into vogue and found great acceptance with the customers.

Further, many organizations experienced intense customer pressure for building such channels and were willy-nilly driven to it. They were forced to ignore its viability.

There is another angle to this development. The idea that a dot com venture meant high hopes and aspirations, but no substantial business plan or model, is a lie. A number of established companies have now developed these channels and are using them very successfully. It must also be mentioned that a number of stand-alone banks have also weathered the earlier difficult times and come out quite successfully after a given time.

This chapter, albeit briefly, shows that the failure of these early ventures has not put a stop to these activities, but, increasingly, they are being successfully used by financial services industry and other commercial enterprises.

At this stage it is important to turn our attention to the technology aspects.

How Pervasive Would the Internet Be?

Is it a mere sectoral application or would it affect every aspect of our life? The issues are no doubt controversial. Recent articles in the *Harvard Business Review* seem to suggest that the developments are not universally encompassing, but have only a limited application. We, however, are prone to agree with the views expressed at the Berkley Roundtable (Cohen et al. 2000). A summarized version of the views propounded there is given here. Allen Greenspan, Chairman, Federal Reserve, sees in the present development(s) 'a deep seated (and) still developing shift in our economic landscape' caused by 'an unexpected leap in technology'. The new emerging economy is variously described as 'innovative economy', 'knowledge economy' or 'a new weightless economy'. We ourselves would use the terminology made familiar by the Berkley Roundtable and would term it as 'e-economy'. The e-economy is a structural shift, bringing transformations and disruption. Today we are in an era where the whole economy and the social structure resting on it are undergoing a change. The driving force is information technology.

IT amplifies brainpower in ways analogous to ways in which the 19th century Industrial Revolution's technology of steam engines, metallurgy and giant power tools multiplied muscle power. IT builds tools to manipulate, organize, transmit and store information in digital form. Far more important is the way it changes the way we think.

IT builds the most all-purpose tools for thought. The capabilities created to process and distribute digital data multiply the scale and speed with which thought and information can be applied. The connectivity and computing

power have resulted in 'e-economy' emerging faster and is more widely diffused than the previous revolutions.

However, we must admit that at this point it is difficult to estimate the full magnitude of changes set in motion. It is like aiming at a bird, which is not only indistinct, but also moving at a very high speed in a zigzag fashion. One thing is certain, it is widely pervasive and would continue to pervade more and more eco-activities.

The next section analyses the effect of the upgraded technology in the way it would affect costs.

Sources of Cost Savings

The internet has the potential to increase productivity growth in a variety distinct ways:

- The costs of many transactions could be reduced. The distribution costs could be substantially brought down.
- The supply chain management could be managed far more efficiently.
- The broadening of markets could lead to a certain pressure on suppliers to use techniques, which could reduce savings.

Electronic processing of claims by the insurers could bring down the cost of claim processing from US$10–15 to a few cents. Same is the case on presentment of bills and payments thereof. The internet could help in better scheduling and information sharing across the company, more efficient interaction with other firms and elimination of some intermediaries altogether.

Enhanced Competition Translated into Cost Savings

It is likely that the degree of competition could make the whole economic system more competitive by bringing many markets closer and provision of information could lead to more efficient production and greater consumer satisfaction. We are led to believe that the internet would lead to enhanced productivity growth over the years. Great impact would also be felt in a wide range of 'old economy' sectors. There would be considerable improvement in business performance by encouraging competition. Across the financial

services industry, retail banking is a major source of difficulties in making the transition to internet operations. Financial services based on provision of services to customers through relationships tied to geography and the provider's knowledge of the customer will necessarily have to weigh the advantages and examine if any savings were achieved through migration by the customers on the internet for standard financial products. The impact is very clearly evident in brokerage services, where the internet has not only reduced the costs, but has also strengthened the relationship-dependent services of investment advising and portfolio management in addition to the standardized service of stock trading. Customers benefit from cheaper trading on-line and have the added advantage of the research findings, analysis, and so on, from the brokers. We must, however, add that some of the cost reduction is offset by increased advertising and marketing costs as online brokers compete with one other.

The internet allows effective asynchronous communication so that information access can take place any time the investor desires. It could well be in the middle of the night. Internet allows flexibility in dealing with information and in an interactive manner. The search capability is enormous. It is far superior to catalogues/menu-driven telephone conversations.

In the current uncertainty prevailing in the financial sector, the Indian financial service providers will have to improve their work methods and culture so that customers overseas (not merely non-resident Indians) are attracted to the Indian markets. This aspect would need careful review as this would set in motion both marketing and technology developments which would lead to improvements in the working systems. The thrust area would be job enrichment, bringing in a new work culture and developing the skills of the staff members to transform them to knowledge workers.