Competency and Risk Involved in E-Finance

EXECUTIVE SUMMARY

E-finance has been defined in terms of the provision for using electronic communication and computation for financial services and markets. In the present paper, the widespread use of E-finance and its implications will be analyzed. The aim of the work will be to assess the potential implications of such an excessive popularity of the E-finance both from efficiency enhancement as well as exposure to risk.

Regarding the information technology’s widespread use, one popular view is that it fundamentally transforms the mechanism of financial service industry along with financial markets. Whereas, another view advocates that internet represents the latest in a long line of electronic technologies that have reshaped the financial industry (Fight, 2002).

Today, financial services like the internet banking, brokerage, trade settlements, mortgage and loans, insurance etc. are offered through internet. All these form the part of E-finance. This popularity has fundamentally changed the value preposition of working of financial institutions by redefining the core operation mechanism, customer relationship management etc. This paper attempts to visualize the fundamental changes in the industry and their impacts on the overall working.

All over the world and specifically in Nepal, According to a study conducted, the current trend in Nepal for private banking system has witnessed a shift from traditional branch banking system to a stand-alone banking model as a consumer movement or a shift towards e-delivery channels like Internet, mobile phones etc has been the basic characteristic. In Nepal itself, majority of banks have started delivering the credit and deposit products by electronic means. With the venture of banks into the electronic arena, new opportunities have been found in the banking sector involving new operational and strategic risks.

On the basis of the above discussion, it can be said that the phenomenon of e-banking as a moderate or poor mean because of the fear of unknown and unavailability of resources. Although from the responses it can be seen that speed, convenience and cost factors are considered to be better as compared other sources of banking.

Thus it can be said that the augmented use of e-finance will definitely result in efficiency enhancement of the financial service sector as well as customer satisfaction but this will also expose the risk of security, frauds etc. Therefore proper risk measures should be implemented before enhancing the use of electronic means of services. In context of Nepal, still there is a long way for e-finance to go further and explore the new horizons.

How Can We Help You?

Getting Top Grades is No Longer a Dream for You.

+44 203 3555 345+44 7999 903324

View Sample Order Now

1 INTRODUCTION

E-finance has been defined in terms of the provision for using electronic communication and computation for financial services and markets. In the present paper, the widespread use of E-finance and its implications will be analyzed. The aim of the work will be to assess the potential implications of such an excessive popularity of the E-finance both from efficiency enhancement as well as exposure to risk. The present work outlines the issues related to e-finance. Although the E-finance system is not of recent origin, but as a result of improvements and evolution in the information technology infrastructure, e-finance has become an essential tool to support any business and deliver greater value to its customers. A direct impact on the banking, international business, financial services and investment etc. is evident in the global economy (Franklin, McAndrews and Strahan, 2001).

1.1 Research Background

E-finance is all about the web-enabled finance function including all the areas of global financial service industry. E-finance is much more than a web front end for financial services. By redefining the core activities, changing the interaction mechanism to address the prime customers and moving up the value chain through creation of better value for shareholders, it basically changes the fundamental value proposition of the finance function. In the conversion process of traditional transactions into the e-finance, the technology enablers play the key role. Through e-finance transformation, finance changes the role from just a transaction processing to a true business partnering. It holds far reaching implications on the interactivity with different stakeholders such as customers, suppliers, employees etc (Franklin, McAndrews and Strahan, 2001).

Regarding the information technology’s widespread use, one popular view is that it fundamentally transforms the mechanism of financial service industry along with financial markets. Whereas, another view advocates that internet represents the latest in a long line of electronic technologies that have reshaped the financial industry (Fight, 2002).

According to Claessens, Glaessner and Klingebiel (2001), e-finance development around the world can be divided into 2 broad areas, namely the impact over the banking and financial services and the transformation of financial markets. As per their argument, the introduction of internet together with other electronic communication tools has primarily tainted various characteristics of banking industry all around the world. Associating with any physical place for banking has almost eliminated. Secondly, as a result of online trading systems available for equities, bonds and foreign exchange have significance for reshaping of public policy for the financial markets and financial services industry. The key considerations in the course of such development are the safety and soundness of regulation, consumer and investor protection, competition policy, global public policy etc.

With the emergence of internet, 3 vital trends have been pushed in the financial services industry. These are the:

Improved price transparency,

Differential pricing

Transformation of distribution channels

All the above stated benefits from the emergence of e-finance are enough to illustrate the primary contribution of this concept in the efficiency of industry operations. On contrary to this, according to Clemens et al. (2001), improved price transparency potentially results in higher competition and reduced profit margins for the industry players. Whereas the research evidences from some other industries making extensive use of the internet suggests that there are certain limits attached to this process. The transaction cost of search is high enough so as the differential pricing will be possible that is an essential in financial services. Augmented use of internet results in unbundling of services and promotes disintermediation, which will transform the distribution channels and restructure the industry.

This study will consider broadly the influence of e-finance technologies on the financial services firms as well as other industries looking towards both sides of the coin i.e. positive as well as negative. In the mid 1990s, online banking came into existence and further steadily became a key feature of the banking services. Besides banks, insurance firms have also implemented the internet backed operations. Electronic brokerage services are also developed in recent years and have become a mandatory for the industry. Internet based businesses is a new and exciting concept, so in the present paper, discussion will be focused on the e-finance technologies use and efficiency and risks attached to it (UNCTAD, 2001).

In Banking, larger use of electronic calculation and data analysis has changed the course of credit decision making. Such innovations have not only reduced the cost of lending but also enhanced the liquidity and marketability of credits/loans.

Electronic communication’s use in financial service industry as well as businesses has started back and even much further than the 1970s. In 1918, use of the Fedwire payment system, which has allowed an electronic settlement for payments among banks using the telegraph, has been started. Such use of the electronic communications for payment settlement systems steadily have increased eventually. And now the situation is that almost 70% of the banking transactions are backed by virtual payment systems. E-finance has changed the entire payment systems not only in the financial service sector but also for the entire business world. Also, the role of electronic communications in the securities markets is significant. Example of an early adoption of electronic system in securities trading is Nasdaq. It has been the first stock market that has employed electronic communication means for its operations (Carlo, 2002).

Today, financial services like the internet banking, brokerage, trade settlements, mortgage and loans, insurance etc. are offered through internet. All these form the part of E-finance. This popularity has fundamentally changed the value preposition of working of financial institutions by redefining the core operation mechanism, customer relationship management etc. This paper attempts to visualize the fundamental changes in the industry and their impacts on the overall working.

1.2 Problem Statement

Purpose of the current work is to identify the effect of e-finance over the industry at large both for efficiency enhancement and risk exposure. E-finance is not a concept that is restricted over the developed economies but also for the entire world economy, its influence can be felt. The problem statement under study is as written below:

“Is the widespread use of e-finance efficient and what are the risks involved?”

This broader problem statement can be segregated into two small problem statements as written below:

What is the level of e-finance penetration in the financial service sector in UK?

What contribution in the efficiency enhancement of the industry does e-finance have done?

What are the risks involved in the higher penetration of e-finance in the business world?

1.3 Objective of the Research

Objectives of any research work are the summarized intends to be achieved by the work. Objectives are to be closely related to the problem statement of the research. Generally, objective of a research defines what exactly the researcher is expecting to attain at the end of the course of work. General objective of the subject under study is to comprehend the impacts of e-finance uses on the overall business world. This general objective can be divided into smaller ones that will logically be connected. Normally, these are referred as the specific objectives (Dawson, 2002). Here, the specific objectives, addressing different research questions are as given below:

To evaluate the popularity of e-finance among the corporate.

To assess the popularity of e-finance among the service seekers or the customers.

To comprehend the efficiency enhancing impacts of e-finance.

To evaluate different sorts of risks involved in the use of e-finance.

1.4 Significance of the Study

In modern economies, importance of e-finance has grown-up considerably in the last years. Internet revolutions along with other innovative information technology improvements have affected the financial system by moving from controlled proprietary systems to the open networks. World’s financial services industry has experienced dramatic changes in the last 20 years, largely because of the globalization, deregulation and consolidation. Besides these, technological advancements have also helped these globalization and consolidation and fascinated deregulation in the industry. Development in the IT (internet or electronic media) has increased the speed of globalization and deregulation process facilitating the development of e-finance. E-finance, as defined, is the prerequisite for the financial services offered through cyberspace/other electronic media. Financial services include money, banking, payments, trading, broking and insurance etc. The key factor responsible for the rapid progress of financial services sector is the e-finance. E-finance has significantly reduced the cost of service offer and has turned out as the driving force for structural change (Dr. Zekos, 2004).

E-finance is considered to be the most capable field of e-commerce because of the financial services’ being information intensive and having settlements without any physical delivery. New information technology (IT) has revolutionized the finance industry with the rapid growth of electronic finance. As mentioned above, e-finance activities include all types of financial activities carried out over the cyberspace like the electronic trading, online banking, the provision and delivery of a variety of financial products and services such as insurance, mortgage and brokerage, electronic payment, electronic money and communication of financial information. Thus, e-finance is a driving force that is changing the landscape of the finance industry vitally. It is specifically regarding a more competitive industry and has distorted the boundaries between different financial institutes, new financial products and services are enabled and the existing financial services are made available in different packages. Aim of this article is to highlight the importance of the new developments on e-finance.

The augmented growth of the e-finance advocates the significance of the proposed research work. The enhanced popularity of the e-finance gives the ground to dig it and find the implications whether positive or negative of this popularity of the concept.

The UK's Leading provider of custom written academic work

Best Dissertation Writing Help In UK

google play google play

1.5 Impacts of E-finance

E-finance has replaced the bulky transaction process in the finance departments and services with a straight through internet enabled process. Key driver for e-finance growth is the systems with inbuilt key financial controls. E-finance has reduced the waste and risk by improving the operational efficiency of system. Remarkable short-term efficiencies can be brought into the system by implementing e-finance, however it is also true that by e-finance, traditional control oriented role of finance is altered largely. Below section describes the most common impacts witnessed as a result of e-finance in the industry (Shahrokhi, 2008).

1.5.1 Impact of E-finance on the financial accounting

E-finance holds a cross functional scope as an information services provider. Emergence of E-finance has provided an integrated information system for finance system in any business, which has provided a wider range of analytical applications for users’ easy access to valuable operational data. It has bettered the foundation for attaining business intelligence using financial statement along with consolidated business report. Functional scope of accounting has expanded. From the core finance perspective, e-finance has facilitated the financial accounting and management within an organization (Shahrokhi, 2008).

1.5.2 Impact of E-finance on the information dissemination

Information distribution within the business firm has been improved with the emergence of the concept of E-finance. Through e-finance, creating and distributing financial reports electronically is one among the core competencies of it. An easy access to information amplifies the probability of decisions being backed by information. Web based accounting services’ scope has been expanded to include virtual storefronts, sales-force automation, online purchasing and customer relationship management applications. All these reduce the execution time as well as the cost (Shahrokhi, 2008).

1.5.3 Impact of e-finance on international business

Internationalization can be generated in any economy with the help of internet based management systems. For an internet enabled business firm, both international market penetration and the development of new international customers are the attainable goals. The once sluggish and burdensome course of progressing of the firm into the international markets has witnessed acceleration of globalization backed by the emergence of e-finance. However, the traditional business networks are the primary device for internationalization but e-finance has augmented the pace of firms going international (Shahrokhi, 2008).

1.5.4 Impact of e-finance on developing countries

E-finance offers lot many opportunities to business houses. A great potential for improving the quality and scope of the financial services is evident with the implementation of e-finance. Through e-finance, the expanded opportunities of business by a widened access to these financial services for retail as well as commercial clients with more cost-effective delivery of services. Online brokerage, in some emerging economies, is already at par as that of the developed nations. E-finance offers an easier access to global capital and financial service providers and also conveys opportunities to widen the access to improved financial services for the developing countries. This could be attained by emerging markets with a greater priority to improving the framework for financial services, modernizing and strengthening the legal systems along with improving the infrastructure for technology enhancements. With the improved financial services, the requisite for a domestic security net as well as subsequent regulations and management turns down (Shahrokhi, 2008).

But on contrary to the stated benefits, E-finance tends to offer a fewer choices for the economies having inadequately capitalized banking systems, extensive guarantees on liabilities and weak regulations. Cost of development is higher for the nations as well as firms. Security and safety in the present scenario are also a serious challenge for the e-finance users. Thus both positive and negative impacts could be traced on the economy of using e-finance system.

1.6 Research methodology

Research methodology is systematic way to solve the problem under study. More precisely, it can be regarded to be a science of studying the process of resolving the question under consideration scientifically. Here, various steps intended to take while solving the research problem are defined by the researcher along with the existing logic behind the choice. Along with the different methods and tools used, the researcher also has to jot down various assumptions underlying different techniques. That means that any researcher has to design methodology for the research work and it may differ from problem to problem (Kuada, 2012).

Here, the purpose of the work is to map the significance of the augmented use of e-finance by business units from the efficiency enhancement perspective as well as risk exposed. This purpose is intended to be solved by a quantitative data analysis. The quantitative data analysis will be done through different tools of Ms-Excel and other high end software available. Both primary and secondary data sources will be used for collection of information. An explanatory as well as descriptive approach of analysis will be adopted for the analysis. A relationship between the penetration of E-finance in a company and its increase in efficiency along with risk exposure will be derived from the study (Goddard and Melville, 2004).

For primary data collection, survey method by structured questionnaire (both paper and electronic media) will be employed. For the data collection, sample will be taken from the population of Nepal based financial institutions and banks. A sample of 50 respondents through convenience sampling method will be collected. For the secondary data, the electronic resources of the respective institutions will be used (Ostle and Malone, 2000).

For data analysis, following two methods will be employed:

First-step Analysis

Generalized method of moments

1.7 Structure of the dissertation

Developing a structure for any written work before starting it saves substantial time and prevents redundancy in the text. Looking into the importance of a well structured work, the present work has been segregated into 5 chapters namely Introduction, Review of Literature, Research Methodology, Analysis & findings and Conclusion & Recommendations (McKeever, 2012).

The first chapter is the introductory chapter. It intends to describe the rationale behind the research, Aims and objectives of the work and Structure of the work. This chapter acquaints the reader with the background of the area of study. Aims and objectives of the study and a detailed synopsis of the entire report’s structure will also get disclosed here.

The second chapter deals with the review of literature. As the name suggests, this chapter portrays the theoretical frame of the concept and scholarly works of other researches. This chapter provides ground to the entire study. Third chapter defines the research methodology adopted for the entire work along with the means of data collection and analysis. Different methods and tools used in the course of analysis will be taught in this section.

Further, in the forth chapter, analysis of the data will be carried out and on the basis of the analysis, findings will be derived. These findings will be used for writing down the conclusion for the dissertation writing in the fifth chapter along with recommendations.