

INFORMATION TECHNOLOGY - THE GROWTH OF E-BANKING SERVICES

The information technology (IT) revolution of the last 2 decades of the 20th century led to a proliferation of personal computers (PCs), servers, modems and other associated electronic data terminal equipment. The use of high bandwidth fibre optic cabling to provide integrated services coupled with modems and switching devices has improved speed of connection via the Internet and the growth in Internet Service Providers (ISPs) has increased accessibility. Indeed, it is estimated that there will be an explosive increase in demand to transmit data over telecommunication networks during this decade and the next. So much so that research and development in the fibre optic field is working hard in the area of silicon technology to improve system performance through higher-speeds and large-scale integration.

This rapid growth and expansion of IT and telecommunication networks and interconnectivity encouraged the introduction of electronic services and non-more so than in the retail trade and in the provision of electronic banking. Presently it is estimated that some 7 million homes in UK have Internet access, however, the more affluent group of consumers, the retired over 55's, account for only about 10 per cent of web users.

Nonetheless, because of the demand for flexibility in work patterns and the gradual change in working practices consumers are, in part, driving the move towards e-shopping, e-business and e-banking. By that I mean in many younger professional households both adults work and have little or no time to deal with routine matters like shopping and financial transactions. This change in society and lifestyle demands greater flexibility of access to both retail and banking services to 24 hours a day and 365 days a year.

Banks, like all other commercial organizations, are in business, primarily, to make a profit for their shareholders. Whilst banks have always offered the means of depositing and retrieving currency or currencies for individuals, and usually within set opening hours, the fundamental business of banks is to make a profit from using monies on deposit within their system. They do this by buying or selling currencies at a mark-up, or mark-down depending on whether the customer is buying or selling and by loaning amounts of money at a pre-determined or negotiated rate of interest. In addition, banks offer other services such as insurance cover, buying and selling securities, government bonds and stocks and shares.

All of these transactions have, until more recently, been conducted on the bank's premises and most transactions include a fee for financial services and advice. Now, through the advent of on-line services customers have greater choice and do not need to be tied to one financial institution or another. For example, customers can shop around, via the Internet, to find the best deal on home or car insurance, on interest rates on current and deposit accounts and, on buying and selling shares.

Importantly, consumers can move banks if and when they do not receive the level of service they might reasonably expect from institutions that are handling their money. Indeed, it could be suggested that customer loyalty to one company or organization is dead and the idea of a 'one-stop-shop' for all financial services does not appear to make much sense unless that is the services on offer are highly competitive.

One of the first electronic devices to be widely used by banks, building societies and other institutions offering banking services was the Automatic Teller Machine (ATM). These machines were introduced not only as a means of extending customer access to their money (banks still tend to operate only between 1000 and 1600 on weekdays and 0900 to 1200 on Saturdays) but also as a means of reducing bank overheads through a reduction in the number of bank tellers. That is because the cost of a transaction via an ATM is estimated, in the USA, at about 12-15p (US 25 cents) and via a bank teller 4 times more at approximately 60p (US \$1). Nonetheless, ATM's, from which we apparently withdraw an estimated £96 million a year in UK, allow customers improved access to their money, as and when required, provided that the branch staffs keep the ATM units filled with currency notes.

Access to individual accounts is through a Personal Identification Number (PIN). The telecommunication interconnectivity network connecting the 27,000 Automatic Teller Machines (ATM's) in UK to individual bank processors are managed by Link, which in turn is owned by the 34 major high street banks and building societies. Up until now the banks have not charged for withdrawals from these machines. Now, some of the major British high street banks have stated that they intend to levy a charge for each transaction conducted via an ATM if the person accessing the system does not hold a current account with the particular bank. Others are suggesting that there should be a standard charge for anyone using any ATM to withdraw cash. This has led to concern that customers could be charged twice for making a withdrawal leading to double charging; this practice is illegal in some states of the USA.

The level of charge being proposed by individual high street banks varies widely between 30p (US 50 cents) and £1 to £1:50p (US\$1:50 to US \$2:30) per transaction. However, many of the building societies that remain mutual have stated they will not charge for any ATM transactions. Now, with the very real possibility of standardized charges for electronic transactions, other cash machine operators such as the TRM Corporation, Moneybox and Euronet are poised to enter the UK market. These operators typically charge a flat rate of approximately £1 for each transaction and prove that there is money to be made from levying charges.

According to an earlier report into banking facilities and bank charges in the UK it is estimated that banks take advantage of our apparent reluctance or inability to move to the tune of some £5 billion per annum. Perhaps it really is time that customers gave serious consideration to moving current accounts to the more favourable institutions? Moreover, since the previously estimated figure for transaction charges are 12 - 15p (US 25 cents) in the USA even the proposed lower figure for UK charges appears excessive. Given that current account customers leave their money in banks and the fact that banks can loan monies on deposit at higher interest rates it seems, on the surface, that customers will be caught both ways.

Nonetheless, why should banks bear the cost of electronic access to accounts? And, if the building societies did levy a charge for every ATM transaction then they could, perhaps, pay a higher rate of interest to their depositors!

Banks and their affiliates, for example, insurance companies and building societies, are major users of telecommunication networks and systems for their own purposes. However, they also require high-speed wideband capacity if they are to encourage customers to move from the current paper-based system of notes, cheques, statements and bank tellers to the completely impersonal electronic banking system.

Many high street banks now offer customers electronic banking services via the Internet; other banks have sprung up that only provide electronic services. This latter group offers improved rates of interest for the simple reason that they have lower overheads in terms of buildings, utility services and employees. All these services are sometimes referred to as home or on-line banking. Customers can, if they choose, use PC's, enhanced telephone screens or even television screens to access their accounts. Once accessed they have the choice of paying bills, transferring money between accounts and maybe even purchasing stocks and shares. However, they cannot obtain hard currency down a telephone line!

Some banks are even going down the route of designing their own software packages, either in concert with IT companies or by buying out small IT companies, to improve access programmes to encourage customers to move to electronic banking. All these programmes are sold as being beneficial to customers because they do not have to leave their home or office to carry out financial transactions. But is that what all customers really want? Human beings are gregarious by nature so do we really want to remain cooped-up at home or in the office all through the day? Already many of us are tied to PC's to conduct our daily business others appear unable to manage without them and can be seen with laptops on buses, trains, tubes and planes. The real danger is that we will forget how to communicate with other human beings.

There are some, perhaps, who because of their commitment to their career and profession do not have the time for the social niceties of dealing with other human beings and yet others who because of commuting to and from work cannot find the time to deal with bank tellers. For them electronic banking might be the answer but for many others, mainly retired and unemployed people and non-working mothers, a visit to the local bank for financial transactions and deal with a human being might break the monotony of isolation and routine.

If the personal bank teller services that we were all used to 20, 10 or even 5 years ago, disappears, in the drive towards electronic banking, will we have to pay increased charges for them if, depending on consumer demand, they were to be re-introduced? Would banks really charge us for talking to a human being or have we all devolved to the state where everything we do is timed, measured and charged for?

Besides, as well as investing in PC's, modems and printers and the appropriate software packages and browsers to access the Internet individuals will also have to cost Internet charges for accessing their accounts through bank's processors. Second, like all transactions involving electronic equipment the movement and use of such systems by individuals can be monitored and tracked; again, is this something that we, as individuals, are happy to accept or, given that banks and financial institutions wield considerable clout in business and, possibly in politics is this process something that we will all have to accept?

There are other drawbacks to the use of electronic systems. One of the biggest problem areas with Internet banking appears to be with the security and safeguarding of information exchanged between customer and bank. Indeed, the Federal Reserve Board of the US banking system expressed concern that the use of electronic banking could expose banks, their customers and their transactions to electronic interception and possibly interference leading to fraud. That is because the Internet and the electronic string between customer and bank are not secure. Therefore, banks need to conduct regular risk assessments, keep customers informed and, perhaps, be prepared to offer compensation if private information is made public!

And, customers need to be diligent and vigilant when accessing electronic systems and networks. They can do this by keeping a tight reign on spending and by checking credit card statements more thoroughly. Additionally by ignoring schemes that promise the earth, they tend to offer dirt; by using credit cards when buying goods over the Internet to protect their purchases; and, by checking websites to see if they provide any protection for the transaction through, for example, some form of encryption. And, by not being afraid to pursue vendors if they make mistakes.

However, given that:

- mergers and acquisitions in the financial services sector are gradually reducing competition.
- high street banks are implementing programmes of branch closures especially in small towns and villages and in rural areas to reduce overheads.
- high street banks are, routinely, following branch closures with programmes of delayering and downsizing to reduce overheads.
- most, if not all, salary payments are transacted through the electronic Banking and Clearance System (BACS).
- we are all encouraged, routinely, to make bill payments by direct debit or through standing order agreements.
- we are all pressed, regularly, to take out one or another of a myriad of debit and credit cards;

It seems as though we are being herded, inexorably, along the path of a cashless society where we all use credits electronically? In my view it is already happening and the general public has little or no say in the matter. It will take time to implement such a large-scale programme maybe a decade or more in developed nations and longer in developing countries. That is because there are, still, many who are not only not computer literate but who lack basic keyboard and software programme skills. Others do not have access to PC's or telecommunication networks and yet others are not paid high enough wages to warrant a bank account.

In my view these are some of the reasons why governments are:

- establishing minimum wage levels.
- promoting and encouraging the teaching of IT systems and computers in schools and colleges of further and higher education.
- recommending the refurbishment and re-distribution of older PC's to schools and poorer households.
- introducing changes in procedures for making cash payments through main, local and rural Post Offices.
- insisting that everyone has a bank account so that even pensions and social security payments, maybe even child allowances, can be made electronically.

Thus it seems very likely that the high street bank building as we presently know it might, gradually, disappear and be replaced by lobbies fitted with ATM's, other touch screens and maybe even keyboards and visual display units to allow customers to conduct all their own banking transactions. In return for these impersonal services then bank charges could be drastically reduced, loan rates could be more competitive and interest rates could be substantially increased. However, as far as the banks and their shareholders are concerned it will be "money for old rope" for no other reason that they can get rid of many staff and reduce their overheads. However, I wonder if people prefer face-to-face transactions?

Therefore, with the move towards total electronic banking it becomes even more imperative for governments to have in place strong regulatory bodies, with appropriate powers, to ensure that checks and balances are in place and acted upon. The biggest danger in the world of finance is the lack of regulatory systems that make sure banks and other financial institutions do not overstep the mark and, if they make mistakes, ensure that the public in UK are not penalized for those errors in financial management.

Consolidation in the financial services sectors over here and over there and globalization, the possible merger of the London and Frankfurt stock exchanges is an example, re-enforces the need for some form of unified regulation. The British government, perhaps in a move to cover these eventualities, has established a single regulatory body, the Financial Services Authority (FSA) with clear terms of reference and clear objectives to achieve and maintain through coherent rules, responsibilities and powers.

The FSA will or has replaced the following financial regulatory bodies:

- Building Societies Commission (BSC)
- Friendly Societies Commission (FSC)
- Insurance directorate of the Department of Trade and Industry (DTI)
- Investment Management Regulatory Organization (IMRO)
- Personal Investment Authority (PIA)
- Securities and Futures Authority (SFA)
- Securities and Investment Board (SIB)
- Supervision and surveillance division of the Bank of England

It will be interesting to see how the FSA develops, how it conducts its business and whether or not it becomes an unwieldy behemoth. Whether it will be able, given optimum manpower resources, regulatory powers and authority and the complexity and diversity of its brief, to successfully look after the interests of all stakeholders, that is customers, banks and other financial institutions? And, whether or not it has been established to simplify rules, regulations and procedures or whether it will confuse the issue through legal jargon?

The first and most immediate question has to be, "Quis custodiet ipsos custodes" - "Who will guard the guards"? Combining the responsibilities and rules of those regulatory bodies presents an enormous challenge and it is important that authority is not abused. At the end of the day the regulation of economic conditions in the UK is the responsibility of the Chancellor of the Exchequer, the Bank of England and other Government ministers and they must not be allowed to abrogate those responsibilities.

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