

E-CURRENT ISSUES IN -BANKING

The one-to-one and interactive communication enabled by the Internet offers sellers and providers of services an unprecedented ability to learn about their customers and use this knowledge in their e-commerce strategies. This ability is especially fruitful in the financial services industry, which is quintessentially information-based and within which information technology advances are often first utilized. Thomas Alva Edison invented the stock market ticker tape before he got around to inventing the light bulb. The proprietary electronic network, SWIFT, first linked money market banks in New York City in 1977—today, it links thousands of institutions in hundreds of countries with a nominal money flow exceeding \$4 trillion daily.

Being at the forefront of technology adoption for many years, the financial services industry faces cutting-edge technological and strategic issues before other industries encounter similar

issues. To gain some perspectives into the future, the University of Rochester's William E. Simon Graduate School of Business Administration and senior management at Citigroup organized a series of international conferences where executives from leading financial institutions, primary technology vendors, and academics gathered to explore contemporary topics and challenges in e-banking and e-commerce.

All major money center banks have been struggling with the formation of winning strategies that will enable them to maintain their leading positions in the industry against the various banks and non-banks such as GE Capital, E*Trade.com, E-Loan, and Schwab.com. These firms have successfully leveraged Internet technology to bypass the well-established brick-and-mortar channels for financial services. In this special section we present five articles developed

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by conference participants that provide an intriguing glimpse into the future of e-banking.

The Internet offers a new channel for distribution of financial services that is already affecting all firms in the industry [1, 2]. To compete effectively, the firms must employ new strategies such as personalization. "Customerization" of Web sites—using Web sites to customize the entire marketing process, as described in the article by Wind—goes beyond recognizing customers and putting up a Web page with their account information. The customized experience offered by such institutions runs the gamut from personalized messages, special products, or bundles of products designed to fit the perceived needs of the customer, integrated with the customers' lives. Such a customized experience is technologically feasible but needs more marketing and strategic analysis by firms. Altinkemer shows how banks can provide a more personalized service by creative bundling of existing financial products in his article "Bundling of E-Banking Services." In this scenario, customers easily find sets of products that work together while firms gain an opportunity to market larger sets of products.

Custom tradable indices—a customized index-based security trading mechanism designed to meet the needs of individuals and small-business customers—can be the heart of a new breed of financial portals as shown in the article by Saatcioglu, Stallaert, and Whinston. Large financial institutions and other firms have already had the luxury of having custom securities created for them. E-commerce technology allows the benefits of such financial engineering to be provided to smaller accounts at much lower costs.

While technology offers new opportunities to banks, it also brings new challenges—non-banks have begun to integrate financial functions into their online offerings, and the competition among banks has intensified because of increased reach and transparency of online offerings. Indeed, the physical distribution is giving way to the supremacy of online content distribution systems [2]. Holland and Westwood explain why this trend is leading to an "economy of the stars" in which

two categories of banks survive: a few juggernaut banks that enjoy scale economy and thus grow larger and many smaller banks that attend to niche markets. The medium-size banks have difficulty competing with the technology enhanced customerization capabilities offered by the larger banks and the personal touch of the smaller niche players.

The success of e-banking and e-commerce is likely to come with an increasing cost to personal privacy. All online interactions leave detailed audit trails that continually depict a larger portion of our lives. Over the past few years we have seen many international political and legislative efforts trying to stem the tide of trading third-party business and personal information. Ahituv takes a controversial stand on that effort, claiming this battle is already over. We should realize that we are in a new world—the open information society—and Ahituv argues that Orwell's prediction of the ever-watchful big brother was not incorrect as much as just too early.

We hope the articles presented in this section will inspire and inform your financial considerations now and into the future. ■

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