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Emerging Role of Banks in E-Commerce

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What is E-Commerce

- Business conducted on line over computer networks (B2B > B2C)

- Supply chain management -- procurement and distribution

- Electronic exchanges
Likely Role of Banks

• Access to Conventional Banking Products over the Internet

• Development of New Products to Facilitate E-Commerce
Banking Networks

A Customers

Bank A

SWITCH

Bank B

B Customers

Bank C

C Customers

Bank D

D Customers

Transactional vs. Marketing
Role of Banks in E-Commerce

Buyer → E-Commerce Over the Internet → Seller

Buyer’s Bank → Bank Payment Networks → Seller’s Bank

Payment Instructions

Payment Instructions
Conventional Products

- Brochure Sites
- Product Offerings
- Information about the Bank

- Transactional Sites
- Account Information
- Balance Transfer
- Credit Applications
- Bill Payment
- EFT
- Letters of Credit
- Cash Management
- Foreign Exchange
Bank Advantages

E-Commerce Products

- Account Relationships
- Trusted Third Parties for Transactions
- Strong Brand Names
Why Develop New E-Commerce Products

- Strengthen Relationships
- Create Opportunities to Sell Products
- Prevent Technology Companies and Nonbank Financial Companies from Taking Their Customers
New Products

- Establishing Internet Portals
- Verifying Identities
- Offering P2P Payment Services
- Enabling B-to-B E-Commerce (supply and demand chain management)
- Issuing Electronic Money and Checks
- Electronic Bill Presentation and Payment
Internet Payments

- http://www.emoneymail.com/ (Bank One)
- http://www.tradesafe.com/ (FleetBoston)
- http://www.billpoint.com/ (Wells Fargo)
- http://www.x.com/ (X.com)
- STAR and NYCE (ATM Payments)
- http://www.nobil.com/ (credit cards)
E-Billing
Bank Operated
Cash Management Model

1. Billing Information
   Biller → Biller’s Bank

2. Bill Presentment
   Biller’s Bank → Web Sites Preferred by Consumers and Billers

3. Bill Review
   Web Sites Preferred by Consumers and Billers → Consumers

4. Payment Initiation
   Consumers → Web Sites Preferred by Consumers and Billers

5. Payment Information
   Web Sites Preferred by Consumers and Billers → Biller’s Bank

6. Payments Collection
   Biller’s Bank → Consumers’ Banks

7. Accounts Receivable Update
   Biller’s Bank → Biller
Risks Banks Face

- Strategic Risk
- Operational Risk
Strategic Risk

- Competitive (Internet-only banks, technology companies acting as banks, and information aggregators)

- Adjustment (Optimum size of branch networks, and involvement in conventional banking networks)
Operational Risk

- Computer or network failures could damage bank reputations.

- Hackers could create fraudulent transactions

- Concentration of risk if extensive outsourcing to common service provider
Risk Management

- Improved Information Systems
- Back Up Systems (wholesale payments model)
- Emphasis on Electronic Security
Conclusions

- Banks are already active in E-Commerce
- Traditional and new products
- Facilitators of E-Commerce
- Risks and Risk Management (strategic and operational risks)
Not Just Banking

- http://www.tradeweb.com/
- http://www.cfoweb.com/
- http://www.bondconnect.com/
- http://www.marketaxess.com
- https://www.ebondtrade.com/
- http://www.currenex.com/
- http://www.muniauction.com/information/
Market Forces

• Institutional Investors
  – Increased price Transparency
  – Aggregated real time information

• Implications
  – Spread Reductions
  – Cost Reductions through Automation
  – Fragmentation of Information and Liquidity