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Profiling E-Marketplaces For Financial Products – An Exploratory Study of Indian e-Marketplaces

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I. Introduction

The convergence of IT, telecom technology and its applications to business processes has resulted in emergence of a new economy, which we call as e-economy. The e-economy has not only dismantled the geographical barriers but has made it imperative for companies to re-invent themselves. Responding to these structural changes in the business environment, financial sector is also undergoing a complete transformation both in the form and content. In addition to re-modelling existing products and services, a new range of innovative financial products and services is being offered. These products and services are now being marketed also through a variety of marketplaces that are located not in commercial complexes at prime land but in the cyberspace. These virtual marketplaces are significantly different from the 'brick and mortar' based marketplaces. Not only that, they also differ from each other in terms of their reach, range of products, and the market dynamics.

Profiling these e-marketplaces could be very useful in improving effectiveness of e-procurement and marketing of financial products and services. Most of the profiling has so far been done on the basis of the effectiveness of the web pages in achieving the business objectives laid down for them. However, the wider issues relate to the ownership pattern of web sites, range of products offered and market dynamics influencing the pricing of products and services. Profiles of these e-marketplaces should also be a matter of interest and concern to the regulators of financial markets as it has a bearing on the development and efficiency of financial markets.

The present paper makes a modest attempt to profile the emerging models of e-marketplaces in financial markets on the basis of the ownership pattern of the web sites, range of products offered and the kind of competitive environment within the same e-marketplace. The objective is to identify and evaluate these alternative models of e-marketplaces that are being experimented for marketing of financial products and services in India. This has been done with the broader objective of establishing a comprehensive and versatile typology that captures and explains the nature, scope and behaviour of each type of e-marketplace for financial products and services. The paper also identifies some characteristic features of each of these types and proposes alternative scenarios in which each of these models would be more suitable.

II. E-Marketing of Financial Products and Services

The term electronic marketplace refers to those sites that have presence on the web-servers of computer networks and are serving as marketing offices. The computer network may be public network (Internet) or private network meant for use by a select group of users. The e-marketplaces are electronic versions of shops and offices in the 'brick and mortar' model of marketing. They perform the usual functions of marketplaces such as (a) attract the potential buyers' attention to the product and services being provided; (b) provide information regarding the products and services; (c) facilitate commercial transactions. Thus, e-marketplaces support all the trade processes namely, search, valuation, payment, settlement, delivery and authentication. Like the retail and wholesale establishments in the brick and mortar model of marketplaces, the e-marketplaces are also classified into Business-to-Consumer (B2C) and Business-to-Business (B2B) marketplaces.

Transactions through web-based marketplaces may reduce transaction costs in procurement and investment of funds; increase availability of funds, financial products; and reduce dependence on a few trading parties and products. Moreover, the e-marketplaces may offer several other services like integration of funds management processes resulting in reduction of requirement of inventory of liquid assets such as cash, estimation of funds requirements and better deployment of short term funds and better portfolio management. The low cost of using such e-marketplaces, increases the scope of use of e-marketplaces by all companies, irrespective of size, nature of business and orientation. Perhaps, the greatest advantage of e-marketplaces for financial products is the value that the company derives from

effective e-procurement at low transaction cost. The economy as a whole benefits from e-marketplaces for financial products through the positive impact on efficiency of financial markets.

III. Profiling and Effectiveness of E-Marketplaces

Effectiveness of these e-marketplaces for financial products is not linear function of existence of such marketplaces. It will rather depend upon efficiency of the web site in achieving the business objectives such as promotion of products and services, provision of data and information and processing of business transactions¹. These objectives may be achieved with the help of four basic factors of value creation, namely, timely, custom, logistic and sensational. The attempts in profiling of e-marketplaces have so been focused on the technical and informational features of web sites². Another class of profiling attempts relates to profiling of user/customer of e-marketplaces. Such profiling focused on classification of customer of commercial web sites on the basis of their characteristics and behaviour patterns³. Hardly any attempt seems to have been made to look at e-marketplaces with focus on ownership, range and competition issues, particularly in the Indian financial sector.

The buyers of financial products and services are concerned with the effectiveness of their e-procurement process. The effectiveness of their e-procurement will depend upon selection of appropriate type of e-marketplace that has the supplier set, amount and quality of product information and accompanying services. Therefore, profiling of e-marketplace models should help in improving effectiveness of e-procurement process. The effectiveness of e-procurement of financial instrument is usually measured in terms of factors such as competitiveness in cost of funds or investment instrument, transaction costs, bargaining power, trust, uncertainty, payment as well as delivery efficiency and the variety and quality of instrument in terms of suitability for the purpose for which it is procured. Many of these factors are market situational ones and they must be taken into consideration while selecting the appropriate type of e-marketplace⁴.

Similarly, the nature and functioning of e-marketplaces for financial instruments should be a matter of interest and concern to the regulators of financial markets. Central banks and securities regulatory bodies must be as interested in bringing some order to the chaotic space of e-marketplaces for financial products, as they are in the brick and mortar marketplaces. These institutions have always shown interest in the online trading in shares of companies that are being traded online. In fact, the online stock exchanges are the most heavily regulated e-marketplaces. And perhaps, that is the reason that they are the most successful e-marketplaces for financial instruments both in terms of volume of trade and effectiveness of their price discovery mechanism. Today, a number of e-marketplaces have emerged that are providing a number of financial products and services. Their functioning is not being regulated by any specially designed policy, perhaps due to low volume and diversity in the nature of products and services rendered; number of players and volume of business being carried. These e-marketplaces are involved in whole lot of activities of the financial sector, facilitating exchange of capital through intermediation, warehousing and distribution. They are also involved in absorption of risk and providing advisory services for exchange of capital and risk management. The capital exchange activities include banking, merchant banking, broking in financial instruments, leasing and hire purchase, venture financing, etc. The risk management services include underwriting, dealing in financial derivatives, bill acceptance and factoring, providing letter of credit and guarantees, etc. The advisory services relate to a variety of activities such as mergers and acquisitions, rating and project appraisal, investment management, financial re-engineering and strategy, equity research and portfolio management, etc.

The emergence of e-marketplaces for marketing of financial products and services has been more rapid than even the ones for commodities and manufactured products. This has been so

¹ HO James, 'Evaluating the World Wide Web: a global study of commercial web-sites' in *Journal of Computer Mediated Communication*, 3(1), 1997.

² Spiliopoulou, Myra and Pohle, Carsten, 'Data Mining for Measuring and Improving the Success of Web-sites' in Kohavi, Ron and Provost, Foster (Eds.), *Data Mining and Knowledge Discovery*, Kluwer Academic Publishers, Boston, 2001.

³ Adomavicus, Gediminas and Tuzhilin, Alexander, 'Expert Driven Validation of Rule Based User Models in Personalisation Applications' reproduced in Kohavi and Provost (eds.) *Data Mining and Knowledge Discovery*, Kluwer Academic Publishers, Boston, 2001.

⁴ Pallou Paul A and sawy Omar A. El, 'A classification Scheme for B2B Exchanges and implications for Interorganisa-tional e-Commerce' in Warkentin M. *Business Business Electronic Commerce: Challenges and Solutions*, Idea Group Publishing, Hershey, 2002.

because financial sector is characterised by a variety of features that make it most apt using cyberspace for marketing. Some of the important ones are as follows:

- a) **Financial Markets are wide:** The markets for financial products and services are highly scattered and sellers seek to provide their financial products and services all over the global. In fact, in case of most of the financial services such as banking and financial broking, one can leverage on global presence. E- marketplaces have global presence and they offer access to widely scattered customers at no additional cost.
- b) **Markets are deep:** The markets for financial products and services are deep. These markets offer a wide variety of financial instruments to suit desired risk/reward balance. Most of these instruments are highly liquid, allowing for cross-selling multi-products. Each customer is likely to seek a number of financial products and services. Thus, customer relationship management (CRM) plays critical role in financial services business. The interactivity and convenience offered by the e-marketplaces make these marketplaces apt for selling financial products.
- c) **Products and Services are Information Intensive:** The financial products and services are information intensive by nature. Promptness in delivery of complete information regarding financial product plays an important role in success in this sector. With the large volumes and high value of transactions, quickness with which an enterprise can respond to an opportunity is crucial. E-marketplaces are reservoirs of product related information that can easily be delivered to the potential customer at a very low cost.
- d) **Digitisation and Remote Servicing is Feasible:** E-marketplaces can store digitised financial products deliver them to any remote location. To the extent, the financial products can be digitised; they can be delivered electronically to the customer at a very low cost. Thus, buying/selling process can be fully automated. This can offer substantial saving in the cost.
- e) **Transaction Intensity is High:** Financial services have high intensity of transactions and thus minor saving in transaction processing and execution costs can result in substantial savings in overall cost of a financial services company. E-marketplaces are highly scalable in terms their capacity to handle large volume of transactions and have facilities for automating the transaction processing. This can help in reducing transaction-processing costs leading to substantial savings.

No wonder, companies going for private or public placement of their debt issues are using e-marketplaces like DebtOnNet and Riskxpress.com. Internet broking is gathering critical mass and transaction costs charged very low on trading platforms like 5paisa.com and icicidirect.com. Many web sites are offering a variety of credit and investment products that one can buy online and pay online for them. Internet banking and online financial advisory services are commonly available on a number of banks' web sites.

A number of models are being experimented having their own characteristic features, advantages and applications. With the development of increasingly sophisticated models of e-marketplaces, an important challenge lies in developing and sustaining vibrant markets that attract active buyers and suppliers of financial products and services, in an environment that is helpful in generating value for all the participants¹.

IV. Models of E- Marketplaces in Financial Sector

Although, a lot of experimentation is taking place in developing models of marketplaces for selling financial products and services on-line, three broad classifications are proposed as they were observed during a survey of web sites offering financial products and services in India:

- a) Single vendor Model
- b) Auction Model
- c) Intermediary Model

¹ Gallagher John M. and Ramanathan Suresh C. ' Online Exchanges and Beyond; Issues and Challenges in crafting Successful B2B Marketplaces' in Warkentin M. Business Business Electronic Commerce: Challenges and Solutions, Idea Group Publishing, Hershey, 2002.

Although an attempt has been made to classify the existing e-marketplace into three broad categories, some of the web sites have characteristic features of more than one model. Their range and reach are also undergoing changes and the classification of an individual web site in a given model is based on its state at the time of conducting the survey. It is quite possible that some of these sites may have changed their range and reach to deserve classification under a different group by the time this paper is published.

a. Single Firm Model

Initially, most of the marketing web sites were created by using this model. These sites are developed by the companies that are attempting to directly approach the customer with specific product and services range. For example, ICICI Bank has its own web site (icici.com/icicibank) offering a variety of financial products and services that it has to offer for the customer. Similarly, citibank.com/India offers Internet banking services, personal loans, home loans, car loans, etc. This model of e-marketplace is similar to the model of marketplace found in the case of brick and mortar marketplaces, like a bank having its branch office at a commercial complex. Such e-marketplaces provide company specific information giving details of the company profile, in addition to the information regarding product features. On these sites, emphasis is on product differentiation, corporate policies, and exclusivity of customer-class. They generally target at brand loyal customers and offer whole range of products and services marketed by the company. Thus, one may find heterogeneous products/ services listed in a single company driven marketplace. For example, kotak.com offers a number of financial products and services such as mutual funds, holiday finance, car finance, personal loans, fixed deposits, commercial vehicle finance, life insurance, etc. in the retail segment. In the institutional segment, it offers capital market finance, assets reconstruction, structured finance, lease & hire purchase, technology finance, investment banking, etc. These sites generally offer on-line transaction facility and almost immediate supply, as they don't depend upon others for supply.

Such a model of marketplace is useful for market leaders, because they already have good brand equity built around their brand name. The customers seek their favourite web sites, remember their web addresses, and have a fair idea of the product range offered by them. This model of marketplace focuses primarily on existing customers and intends to build up long-term relationship with them by providing value-added services on line. Many of these marketplaces build up customer databases and system of authentication for online transactions.

This model has the capability to create value through limited customizing and timely distribution of product and services as the product/service is provided by the in-house capabilities. However, they are not very strong on value creation through sensationalizing and logistics due to limitation of size of office network for and range of products/services being offered. This 'one-to-many' e-marketplace model is very common in the financial services sector products and services are well differentiated. These e-marketplaces are simple, easy and quick to set-up, as their contents are often based on the marketing documents of the company.

Pricing: This model of e-marketplace offers specialized or differentiated financial products and services and therefore the prices are pre-negotiated, fixed or pre-determined and the market players are not willing to engage in dynamic pricing, at least online.

b. Auction or Exchange Model

These marketplaces are the ones in which e-communities are formed. Members of the e-community play key role in such sites. Commodity-like financial products (such as consumer loans) that are more susceptible to demand or supply fluctuations are more likely to be traded on this type of e-marketplaces. The loan auction sites are now becoming very popular. For example, DebtOnNet and riskxpress are negotiating platforms where coupon rates in primary debt markets and buy and sell quotas in secondary debt markets can be negotiated. Similarly, for the secondary equity market, e-broking sites such as icidirect.com, 5paisa.com and sharekhan.com are good examples of auction or exchange marketplaces.

The basic advantage with this model of e-marketplace is the transparency in the negotiation process. Such transparency helps in expediting the buying decision. As the necessary information on most of buying decision variables is available online, the decision for investment or credit can be based

on more analysis of information and not on gut feeling. The market making mechanism that is prevalent on these sites, offers more efficient pricing. Thus, such e-marketplaces are likely to gain further momentum in future. The auction model has the capability to create value by offering a wide variety of products and thus customizing is more convenient. Liquidity is another important feature of such types of e-markets and thus supply is quick and assured. Thus, these e-marketplaces have wider range and reach than that of sites of the single firm model. However, they are not very strong on value creation through sensationalizing due to availability of similar products on the same site.

Pricing: This model of e-marketplace for financial products and services requires price-setting engines. The buyers and sellers in this type of marketplace broadcast their offers and price is determined through matching of offers. However, the efficacy of the price discovery mechanism depends on a number of factors including market demand and supply position, number of players, existence of brokers and market makers, etc. Further, a number of variations of auctions are being used in the process of determination of price for the financial products, such as English auction, Reverse auction, sealed bid auction, Japanese auction, etc.

c. Intermediary or neutral third party driven Model

This model of e-marketplace is rapidly gaining popularity among the marketers of financial products and service. In fact, a new breed of e-intermediaries has emerged in the e-marketplace. They sell a wide range of financial products and services offered by different firms. These marketplaces are virtual marts of financial products and services. Apnaloan.com, myiris.com and walletwatch.com are typical examples of such models of e-marketplaces. These marketplaces offer a wide range of financial products and services through a single window from a variety of suppliers. For example, apnaloan.com allows search for an appropriate credit card, auto loan, personal loan and home loan. It enables visitors to apply online, track application status and ensures delivery at home. The advantage of these sites is that they are independent of the firms whose products are being sold by them. This helps in building the trust in the information provided and in turn helps in making buying decision. Another advantage of such models of e-marketplace is that they help in generating a fairly reasonable amount of competition among various supplier thereby enabling the buyers to compare product features as well as prices. Such sites are more useful where brand loyalties are less important and the intermediary firms offer their own brand value to the small to medium size market players.

Pricing: The pricing in this model of e-marketplace is not as dynamic as in the case of auction or exchange model. It is neither pre-determined nor fixed as in the case of single company driven model. The price is negotiable within a limited price range and is not heavily influenced by market demand and supply position.

The above list of models for e-marketplace for financial products and services is not exhaustive. Many more are being added to the list. However, most of the contemporary e-marketplaces for financial products and services can be classified as having elements of at least one of the three types identified above. An important point to bear in mind is that each of the alternative models has its own advantages and strengths and would be suitable for a select market environment. Each of these models is subject to the risks of operational weaknesses and possible misuse of competitive position¹.

V. Conclusion

Given the rapid growth of e-marketplaces in the financial sector, it is important to understand the complexities in the nature and behavior of such e-marketplaces based on a versatile profiling. The proposed models in the typology provides a simple method to help researchers and observers understand the basic characteristic features of these models and put them in some classes, in the chaotic world of e-commerce. From the managerial perspective, it helps managers in selecting the most appropriate type of e-marketplace for marketing and procuring financial products and

¹ Muneesh Kumar ' Marketing of Financial Products on Web- Opportunities and Challenges' in The Chartered Secretary, August, 1997.

services. The above analysis also offers to a manager, a set of factors that may be considered while selecting the model of e-marketplace.

However, the question that remains still unanswered is how many of these companies are really able to leverage on IT and what is the impact investment in developing e-marketplaces on the value chain. Answer to this question will help predicting the survival, growth, impact and significance of these e-marketplaces. The networking and communication infrastructure of India is still at an embryonic stage and needs to grow to become dependable. Can the financial sector optimally utilise the e-marketplaces in the absence of well-developed electronic payment systems and regulatory environment? The concerns over security and privacy of transactions and other information on the web site still remained un-addressed¹. What about the issues regarding legal compliance and other sources of risks? What are the essential elements of strategy for success for financial services firms on each of these models of e-marketplaces? There are no clear answers to these basic questions and unfortunately, there are hardly any experience to fall back upon while seeking answer to these questions? Indian companies should watch the global trends closely. However, one should not forget that success of e-marketplaces would largely depend on the culture and motivation of the customer. Thus, the trends in the absorption of IT by people and rate of change in the mindset of investor and customers of credit products in India are equally important. Perhaps, selectivity could be a more prudent approach in this regard.

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