

## FINANCIAL SERVICES INDUSTRY AND THE ROLE OF PRACTITIONERS-INTERNET AS AN EFFECTIVE TOOL OF IMPROVING PERFORMANCE

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### Abstract

Nowadays, financial market constitutes a critical element of any nation economic development that cannot just be ignored as it serves as the bedrock of any financial and economic development plan. This is because financial service providers serve as the commercial hub for investors and savers. While investors borrow from the financial service markets the savers keep their monies with them. In terms of service classification, financial services are heavily informational and in principles are easily digitalized. Meanwhile, the advent of information technology has greatly reduced the number of people working in the financial service industry especially when there is greater desire to maximize profit at a minimal cost. Now, most of the functions of the financial service market are done electronically requiring only the services and attention of a few experts to manage the operation. In the quest for better life and ways of handling human affairs, Scientists and financial service experts have developed various mechanisms to simplify human work for efficiency and effectiveness. Part of these efforts was the discovery of internet which allows an institution or organization to provide information relevant to its business, goals, objectives and missions on its website or other web domains for users, customers, staff and other stakeholders to access either for personal consumption or for other purposes. The discovery of the internet has been a relief to the financial service practitioners as a lot of hitherto manual works have been replaced with computerized work which even is even simpler, better, safer, faster and concurrently available to many customers at a time anywhere in the world. The finance practitioners have the course to now carry out their activities with customers and other institutions without necessary having direct interactions with them but only via internet and only engages in contact with such people where it is extremely necessary to have such a physical contact. Therefore, the paper examines how internet has been of help to financial service practitioners and the finance industry in keeping up their duties with technologies, market their products and services and overcome the ever-growing competition as well as proffer solutions on latest ways of curbing internet fraud in the financial service industry.

*Keywords: Finance, Information technology, Practitioner*

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### **Background to the Study**

The emergence of a global and market-based financial economy has brought considerable benefits to those middle-income countries at the forefront of economic reform and liberalization- the so called emerging market economies. Thanks largely to the opening of the financial sector in these countries; investors worldwide can now better diversify their investment choices across domestic and international assets, increasing their expected rate of return. Businesses within these countries are better able to finance promising ideas and fund their expansion plans. As a result, financial resources worldwide are invested more efficiently, boosting economic growth and living standards. At the same time, however, the globalization of financial markets has proved to be a double-edged sword. Even in those countries where liberalization has been a tonic for economic growth, it has also raised the real risk of financial crisis. The most controversial aspects of financial liberalization are capital account liberalization and, within the capital account, the liberation of portfolio flows. The dangers were brought into sharp focus during the East Asian financial crisis of the late 1990s: the failure of financial system in that episode imposed high economic and social costs, such as high unemployment, increased migration, social conflict, and social instability- and not only in the countries directly affected. In the wake of this and other crises, we have seen an urgent debate about reform of the international financial architecture to reduce the chance of further financial instability in the global market which has been largely facilitated by the sophisticated internet facilities (Stijn&Subir, 2006).

It is in the light of this that the paper seeks to examine financial service marketing and the roles of practitioners in the new competitive market so as to highlight major features that distinguish the sector as unique to achieve better economic results.

### **Literature Review**

In the meantime, finance industry represents intermediaries and industries that mobilizes savings and facilitate the allocation of funds in an efficient manner. Financial institutions can be classified as banking and non-banking financial institutions. Banking institutions are creators and purveyors of credit while non-banking financial institutions are purveyors of credit. While the liabilities of banks are part of the money supply, this may not be true of non-banking, financial institutions. In Nigeria, non-banking financial institutions, namely: the developmental financial institutions (DFIs), and non-banking financial companies (NBFCs) as well as housing finance companies (HFCs) are the major institutional purveyors of credit (Afuape, 2003).

In the post-reforms era, the role and nature of activity of these financial institutions have undergone a tremendous change especially with internet intervention. Banks have now undertaken non-bank activities and financial institutions have taken up banking functions. Most of the financial institutions now resort to financial markets for raising funds. On the other hand, financial services are the economic services provided by the finance industry, which encompasses a broad range of organizations that manage money, including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment

funds and some government sponsored enterprises. Meanwhile, financial services can only be obtained in financial market. So, a financial market is a market in which people and entities can trade financial securities, commodities, and other fungible items of value at low transaction costs and at prices that reflect metals or agricultural goods. A financial practitioner is a professional who renders financial services to clients, people and organizations. So, Van Horne (2002) opines that the modern-day financial manager is instrumental to a company's success. As cash flows pulsate through the organization, this individual is at the heart of what is happening. If finance is to play a general management role in the organization, the financial manager must be a team player who is constructively involved in operations, marketing, and the company's overall strategy.

There are both general markets (where many commodities are traded) and specialized markets (where only one commodity is traded). Markets work by placing many interested buyers and sellers, including households, firms, and government agencies, in one 'place', thus making it easier for them to find each other. An economy which relies primarily on interactions between buyers and sellers to allocate resources is known as a market economy in contrast either to a command economy or to a non-market economy such as gift economy.

The financial service industry: The financial service industry includes firms that are engaged in activities such as investing, lending, insurance, securities trading and securities issuance (Kolakowski, 2014). This is not an exhaustive list, but these companies can be characterized as being in one or more of the following lines of business.

- i. Banking
- ii. Insurance
- iii. Securities Brokerage (or Financial Advisory Services)
- iv. Investment Banking
- v. Securities Trading
- vi. Investment Management (or Money Management)
- vii. Securities Analysis
- viii. Financial Planning

### **Roles of Financial System on the Economy**

One of the important requisite for the accelerated development of an economy is the existence of a dynamic financial market. A financial market helps the economy in the following manner:

1. Saving mobilization: Obtaining funds from the savers or surplus units such as household individuals, business firms, public sector units, central government, state government etc. is an important role played by financial markets.
2. Investment: Financial markets play a crucial role in arranging to invest funds thus collected in those units which are in need of the same.
3. National Growth: An important role played by financial market is that, they contributed to a nation's growth by ensuring unfettered flow of surplus funds to deficit units. Flow of funds for productive purposes is also made possible.

4. Entrepreneurship growth: Financial market contributes to the development of the entrepreneurial class by making available the necessary financial resources.
5. Industrial development: The different components of financial markets help an accelerated growth of industrial and economic development in a country, thus contributing to raising the standard of living and the society of well-being.

#### **Financial Service Functions of Finance Practitioner**

- i. Providing the borrower with funds so as to enable them to carry out their investment plans.
- ii. Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in production debentures.
- iii. Providing liquidity in the market so as to facilitate trading of funds.
- iv. It provides liquidity to commercial banks
- v. It facilitates credit creation
- vi. It promotes savings
- vii. It promotes investment
- viii. It facilitates balance economic growth
- ix. It improves trading floor

#### **The Real Impact of Technology on Financial Services**

As a key element of this vision, information technology no longer occupies its traditional place in the organization as a support function. Instead, it becomes a business function true to its essential mission: managing data as a genuine asset. Going forward, data will not simply represent inventory to passively store or warehouse, but rather dynamically interconnected information to correlate, integrate and use holistically. Indeed, the internet warehouse becomes the nerve center that adds value to stored legacy information, turning it into an actionable commodity.

In fact, at every step, information will acquire value just like any asset in a portfolio. A primary purpose of technology will become implementing strategies for enriching data to achieve larger business objectives across all functions throughout the globe. Such strategies will allow for enhanced reporting and analytical capabilities, including, for example the use of data to test risk and investment assumptions, and to explore predictive scenarios built around various decision paths. Indeed, data management in the future will comprise only one element in an integrated (to enable business automation), exceptions monitoring, data management and end-use data-rich. Since the advent of the earliest adding machines and mainframe computers, technology, and the innovations have helped to bring about an increasingly important role in the evolution of the financial services industry. Traditionally, the pace and impact of these technological advances has been gauged using easily quantifiable metrics such as storage capacity and processing speed. Today, however, when it comes to the application and potential of technology in the financial services industry, we are witnessing the emergence of a number of new and rapidly accelerating trends that promise to usher in an entirely new paradigm—one in which Information Technology (IT) is not simply an 'add-on' at the periphery of the business function, but rather deeply embedded at its very core.

In response to clients' demands for more and faster information, greater transparency and improved risk management, finance service providers are supplying the vast computing power at their disposal towards an increasingly complex, sophisticated and integrated array of tasks. And the models they are considering are being built by an entirely new breed of financial practitioner-one who possesses a keen understanding not only of critical business processes, but also of the technology that drives them. The reason for this significant shift in perception is that new technological innovations are empowering us to slice, dice, process, manage and correlate data in ways that give it exponentially greater value in the eyes of our clients, allowing them to make more informed investment decisions than ever before.

Looking ahead, continuing advances in technology will allow the financial services industry to deploy increasingly sophisticated, forward-looking analytics to help clients make more informed investing decision. Even at their most detailed, the financial reports of today can only provide the industry with a glimpse in the rearview mirror. The financial reports of tomorrow, however, promise to help the industry better understand the actual precursors of performance. In the not-too-distant future, rather than simply providing clients with a simple description of their risk position, we will be able to provide them with detailed insights into the actual factors contributing to those risk position. The implication of this shift cannot be overemphasized, as they will have reverberating effects on the habits, business processes and decision-making processes of institutional investors around the globe (William, 2013).

### **Growth of Electronic Trading**

Upgrades in exchange technology, combined with the rising use of algorithmic trading, including high frequency trading methods, have contributed to a significant increase in the percentage of trades that are placed electronically rather than verbally.

### **About Algorithmic Trading**

Algorithmic trading involves the direct interface of computer with trading platforms to place orders. Using an algorithm, a computer analyses market data and sends trading instructions to the exchange or platform without the need for human intervention. Because the computer can process information quickly, trades are placed rapidly. By contrast, high-frequency trades are a subset of algorithmic trading whose models profit by taking advantage of small incremental changes in the market. In doing so, they trade frequently, perhaps several times a second.

Computer algorithms, or formulas, are based on investors' proprietary requirements. Computers can process large amounts of information very quickly, analyze data patterns and place trades at high frequency with the help of finance practitioners. For example, an algorithm may seek arbitrage opportunities, looking for small differences in price or price movements.

Algorithms can be as different as the investors that generate them, and go beyond just placing a trade. While some institutions use them to gradually accumulate or dispose of a position in a single security, others are designed to determine everything from the timing of a trade to the price paid, the quantity and the way an order is routed. Some 'smart order routers' will even select the best place to send the order (Lewis, 2011).

### Analysis

H<sub>0</sub>: Use of ICT for banking operations has no significant effect on banks performance.

Dependent Variable: ROE

Method: Least Squares

Sample(adjusted): 2006 2014

Included observations: 9 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14.02904	5.320707	2.636688	0.0336
WEB	0.220370	0.304180	0.724472	0.4923
R-squared	0.069750	F-statistic		0.524860
Adjusted R-squared	-0.063143	Prob(F-statistic)		0.492274
Durbin-Watson stat	3.096611			

ROE = f(WEB,  $\mu$ )

Estimated regression line:

ROE = 14.02904 + 0.220370WEB

### Interpretations:

*The sign of  $\beta_0$ :* The intercept of the regression line is positive i.e.  $> 0$ . This conforms to a priori expectation. It implies that in the absence of transaction through the WEB, as a proxy for ICT in the banking sector, the return on equity will still have a positive value of 14.02904 million naira.

*The sign of  $\beta_1$ :* The coefficient of WEB is positive i.e.  $> 0$ . This conforms to a priori expectation of a positive relationship between the volume of transaction on internet and the explanatory variables, indicating direct or positive relationship between the two. Thus as volume of transaction on WEB increases, ROE will increase. Also the coefficient implies that a unit change in the volume of WEB will result into 0.220370 units change in ROE.

*R<sup>2</sup>:* The result indicates that the series is not a 'good fit' in the statistical sense given that R<sup>2</sup> = 0.069750 and the adjusted R-square a better measure is 0.063143 indicating that less 7 percent variation in the dependent variable is explained by the explanatory variable.

### **Statistical Significance**

The coefficient of WEB is not statistically significant. This is because the t-statistic for the coefficient of WEB is 0.724472 i.e. very low and the probability of error is 0.4923 i.e. is beyond 10%.

The intercept coefficient is statistically significant because it has high t-statistic (2.636688) or low probability of error (0.0336). The overall statistic is not significant since the F-statistic of 0.524860 is very low and the associated probability of error 0.492274 is high.

*The DW-statistic* of 3.096611 is not a plausible one, as it is not in the neighborhoods of two indicating that there is a negative serial correlation.

### **Conclusion and Recommendations**

Technology solutions have always represented a work in progress, as learning curves are mastered, new assumptions are tested and old ones discarded. Current trends in the industry are rapidly shifting views about what is feasible. At the same time, they are the product of insights gleaned from lessons learned. Most market observers agree that in an era of uncertain macroeconomic fundamentals and continuing investor uncertainty, non-normal return distributions will remain a fact of life. Investor crowding, asymmetric demand for equity options and other behavior-based factors will continue to impact portfolios. The art and science of asset allocation will likely continue their evolution, moving whole portfolio optimization to the center of asset management. Ironically, this is due in some measure to globally-deployed Information Technology systems and infrastructure that integrate markets and transmit information of ever-greater granularity in near real time (Donohue & Hooker, 2011).

As the global pool of investments under management continues to expand, and as the proportion of these assets that move across borders increases, finance service experts and managers must cast an ever wider net, incorporating into their strategies more markets, financial service classes and securities types. Financial service experts and managers have little choice but to continue investing in Information Technology systems and raw computational power for building intelligent, networked models that seek to map risk and dynamically evolve both in service to alpha acquisition and to enhance risk management of finance market products.

But technology alone cannot resolve critical finance investment challenges. A state-of-the-art operating room and arrays of diagnostic technology, by themselves, do not necessarily foretell a successful procedure any more than super computers, databases and networked workstations alone can manage a globally allocated investment portfolio. The human factor-experienced financial practitioners, expert in both the theory and application of financial practice-is an important determinant of successful financial outcomes that should be considered. In the complex partnership between expertise and technology, the arms race of ever-more powerful systems engaging ever larger and more complex markets shows few signs of abating. The role of technology and innovation in the financial services industry is evolving more quickly, and with greater potential impact, than ever before. For service providers and the clients they serve. The potential

benefits are numerous, and include the promises of more informed, holistic decision making, more powerful predictive capabilities and enhanced risk and compliance framework in which to operate.

As our industry continues to embrace and incorporate these amazing technological advances, we are able to extract more intelligence and potential value from raw data today than ever before. This trend is certain to continue going forward. And, in addition to helping market participants to grow their respective businesses and portfolios, this evolution of technology in the financial services industry will help lead to increased transparency and openness, protecting the best interest of the respective market players, their clients and the economies from which they operate.

Going forward, industry participants will need to respond to the numerous challenges presented by the rapidly changing regulatory environment we have witnessed since the global financial crisis. The regulatory landscape continues to evolve and the number of parties interacting with one another continues to increase. All the while, providers are expected to react more quickly, continue to create new functions and features, and seamlessly integrate those new features with the rest of their service offerings. To ensure ongoing compliance with this new and constantly evolving set of rules, provider will need to be able to quickly and efficiently retrofit their technology platform to suit these newly introduced regulatory conventions. Coping with the challenges associated with a regulatory landscape in a state of constant flux will be a key challenge facing financial service industry going forward, but it too is a challenge that can be overcome through the strategic application of technology by finance service marketing practitioners. In order to meet the challenges of the globalized marketing trends of financial services, practitioners should be able to acquire relevant skills in finance; marketing and technology management that would make them compete favourably with others in the global market.



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