E-commerce and acts of faith

By PENNY LE COUTEUR
Acting managing director, Securities Institute of Australia.

Economic optimists — and the International Monetary Fund is among them — are feeling pretty cheerful about world prospects, convinced that even ailing economies will benefit from the secondary smoke of the United States’ incendiary growth. The US is predicted to expand by an extraordinary 4.4% this year, with continuing low inflation, and the “productivity revolution” at the heart of this growth is almost certain to spread to other regions.

Not everyone is an optimist, though, and those on the other side gleefully remind us that every boom becomes a bust and that it is always wise to keep the bunkers stocked with non-perishables.

Back to the optimists. This time, they say, any let-down will be relatively gentle, and survivable, because the so-called ill-defined “new economy” is a different creature entirely. It is technology-driven and therefore infinitely evolving, able to nimbly sidestep booby-traps and dart towards new safe havens. “Trust technology,” says this view. And we’d better, it goes on, because technology is here and it is taking charge.

But can it be trusted? Many recent events in major stockmarkets have turned out to be unrewarded acts of faith in the magic of high-tech. Better advice might be to regard technology circumspectly, to tread its paths gingerly and to accept that some of it can mean treasure and some of it trouble.

Consider e-commerce, an integral part of that “new economy”. Again a poorly defined concept, e-commerce is nonetheless possible to comprehend in its vaguest form of doing business on the Internet. Examples that come readily to mind are of individuals ordering books, records and software programs without leaving the keyboards of their personal computers. Internet retailing emerged only five years ago but is already causing tremors in the stolid edifice of conventional shopping. But it will be no walkover. Electronic retailing has to surmount dogged resistance from a public unconvinced about the security of online payment systems and the privacy of personal information delivered to the Internet. The costs of maintaining a fully reliable commercial website are enough to kill off many new contenders.

E-commerce has earlier applications in industry, where for many years manufacturers have been ordering their supplies by computer, exploiting the financial wizardry of just-in-time inventory. Now in the United States the car makers Ford and General Motors are in the process of transferring all their purchasing activities to the Web. The knock-on effects of such developments are huge, revolutionising warehousing and distribution systems. As industry calls for better and better technology, e-commerce breeds e-commerce.

Just as e-commerce brings together buyers and sellers in retail and manufacturing sectors, so it does in the securities and investment industry. Online retail sharebroking is already established and its future as assured as that of online banking. (In the US, the almost-wholly online retail broking firm Charles Schwab has a market capitalisation of $US30 billion, the same as the “old-style” giant Merrill Lynch.) In the wholesale investment markets, paperless, real-time transactions are a reality.

Technological development in this industry is moving so quickly that it is hard to see which direction it will take next. It is also hard to know what role will be played by regulators. Their intervention is inevitable as issues of privacy, consumer protection and cross-border regulatory disharmony become more prominent, as they must with the inexorable spread of e-commerce.

Three articles in this issue of JASSA point to the implications of e-commerce in areas pertinent to participants in the securities and investment industry. Scott Donald looks at past periods of technological innovation and at the current Internet phenomenon, asking which lessons will prove relevant this time around. “The hype that surrounds the current market environment in many cases masks the fact that even professional investment firms are struggling to exploit the Internet revolution,” he observes. “The investment firms face challenges to their valuation techniques, to their understanding of how businesses and industries operate, and to the whole way they conduct their research.”

Amanda Heyworth focuses specifically on the online mortgage origination market and the difficulties for lenders in achieving a “seamless” electronic service. She concludes that provided back-office systems are adequate, the development of the Internet channel for home loans will result in a more competitive market with more demanding consumers.

In a third article, David Hurburgh examines the use of company websites to disseminate financial information and discusses their potential role in the ASIC-governed compulsory disclosure regime.

While these articles merely touch the surface of Internet-related issues of relevance to the securities and investment industry, they illustrate the extent of change promised by the development of e-commerce. JASSA will continue to record that change.