

Banking and its influential factors in the economy

[Economics](#)



**ASSIGN
BUSTER**

Banking is one of the most influential factors on the economies of today's society. As with everything these days, technology is changing where, when and most of all, how we do things, specifically banking and other related financial transactions and arrangements such as mortgages, etc.

Recently, in Toronto, the very city we live in, we were in the midst of two possible bank mergers, which would have changed banking and on a larger scale the entire economy, in many ways.

In comparison to the larger banks of the world, Canada's most major banks are not even close to the size and caliber of international banks like ING Direct, for example. This would not typically be a problem for Canadian banks, however when these international banks move into Canada, which has happened already, and is bound to happen even more as time passes and Canada becomes a more prosperous country, it quickly becomes a very large problem. Banks are an extremely affluent business. Regardless of where you are in the world banks are right at the top of the list when it comes to capital, equity and earnings. Canada fits right in, in comparison to the rest of Canada. But when we compare Canada's banks to those of other countries, or even better, international banks, they are simply insignificant.

For example, hypothetically speaking, if the entire world were opting whether or not to adopt a single currency, most deciding factors would be made by the banks of each individual country. Canada, although it is a major world leader in many other categories, would not be looked upon as a country that knew much about international stature, in terms of banking. In

this essay I will try to prove how banking is one of the most influential factors on the economy by using factual cases from recent times.

What does better customer relations" mean? Increasingly, customers are demanding more convenient ways to do their banking. An Ernst and Young study (Technology in Banking Report) concluded, " nothing changes in the banking world if customers cannot get financial services when and where they wish... this means anywhere, at any time. " Statistics show that ATM" s telephone banking, and home banking account for over fifty percent of all banking transactions today, and total non-branch activity is growing at fifteen percent a year. In one survey (Web-Tech, Inc., May 17, 1995), eighty-two percent of 18- to 34-year olds polled preferred banks with 24-hour service.

Customers are also demanding a more sophisticated mix of products tailored specifically to their financial needs, and non-bank competitors are better fulfilling these needs. Banks today hold only 20% of household financial assets, versus 34% twenty years ago; they have 30% of business deposits, versus 42% only seven years ago. Non-bank credit card providers have gained inroads against banks, holding a 25% market share versus 5% in 1986 (WebTech, Inc., May 17, 1995).

Internet banking offers an attractive solution to this redesigned products and services. Customers have 24-hour graphical-interface access to their accounts and appreciate that their bank is doing something to make banking easier for them.

A country, like a business or a person, is constantly doing anything in its power to better itself. A business, like a society, is either growing or declining; the competitive world allows no other options. Human nature will allow no state of rest. Economics is the study of production, distribution, exchange, and consumption of goods and services (Ammer, pg. 186), all of which, if stopped, would cause a business or a country to grind to a halt. From these statements we realize that change is an integral part of the world of economics.

Not necessarily a change in what we create, rather the way we do it. Technology, that is, the development of new materials, products, machinery, and processes can create new products and concepts as well as improve production and efficiency for existing products a few key factors that determine economic growth. As a result, new jobs are created, existing ones are made easier and more efficient, and the in the end there is a greater profit margin (Thurow, pg. 69, 304). To understand this topic I will look at the effects of technology on economic growth compared to those of the other four factors,

There are five factors, which affect a country's economic growth,

Each factor has its own effect on economic growth, however together they produce a greater overall effect.

Picture a bank without any branches. No tellers. No rows of desks. No racks of brochures, no automated teller machines outside. Picture, in fact, a virtual bank, one that for the customer exists only in his or her office or home, as images on a computer screen. US financial institutions are moving towards "

<https://assignbuster.com/banking-and-its-influential-factors-in-the-economy/>

virtual banking." This strategy is about making bank products and services available to customers any time and any place they want them. As virtual banking becomes more popular, it is very likely that more customer service will be seen while the number of traditional teller-staffed branches will decline.

Bank customers will move away from traditional banking and will become more dependent on electronic transactions using ATMs or PCs (Britt, Savings&Community Banker, February 1995, p. 9). Thanks to this " technical revolution", financial institutions are using software programs, online services, and even the Internet to allow customers to check balances, pay bills, and transfer funds among accounts. Bankers promise that, in the near future, we will also be able to more easily buy certificates of deposit, mutual funds, and other investments, and even apply for loans electronically.

For most people, today's best option may be plug into their bank through one of three leading home-budgeting software programs, these programs are:

By charging \$5 to \$20 a month for such services, banks are sure to cash in on the high-tech superhighway. This would make everything much easier for customers. All that is required is a personal computer, software and a modem, all of which the majority of people in today" s society have. On-screen instructions, filled with colorful graphics and pictures, explain how to select and work on various tasks. The system automatically calculates and updates account balances and keeps records of bills. A handful of banks have already set up home pages on the Internet to provide information to

their existing and potential customers about upcoming services. They started their transactions.

Internet banking differs from the traditional PC banking model in several ways. In most home banking ventures, the bank sends an application software program to the customer which runs on the customer's PC. The customer then dials into the bank with their modem, downloads data, and runs the programs that are resident on their computer, perhaps sending back a batch of requests such as transfers between accounts. It demands more and more space and speed from the customer's computer.

With Internet banking, on the other hand, there are potential customers who already have all the software they need to do their banking, since all they need is a browser. The actual banking software resides on the bank's server in the form of their home page. This software can be updated at any moment with new information, such as new prices or products, without having to send anything to the customer; it can also continue to expand and become more sophisticated without becoming cumbersome for the customer to operate.

Banking with a browser, on the other hand, involves a continuous, interactive session, initiated by a local telephone call to a local access provider or online service. By developing internal expertise today, banks can prepare themselves to react quickly and efficiently to competitive moves and consumer trends as the financial services industry changes.

Employees at Bank of America, Chemical, Wells Fargo, and other large U. S. banks use them to buy lunch and snacks. Smart cards-plastic cards with computer chips-are starting to be used for prepayment, debit, and credit

purchases all over the world. In the U. S., smart cards can be only used at a contained group of machines, or for one purpose. " They are part of the broader shift to electronic delivery, to making ATMs more functional, to using PCs and the Internet to do home banking." says Edgar Brown, senior vice-president of alternative delivery products at First Union, Charlotte, N. C.

One of the advantages of using chips on cards with or instead of magnetic stripes is better security. Microprocessor chips are very difficult to alter or forge. Chips can carry more information than magnetic stripes can. A microprocessor chip can store up to eight kilobytes of data. Smart cards make cheaper and faster payments possible. Money can be deducted from a chip without on-line authorization. This makes for a two-second transaction versus an up-to-two-minutes one, and telecommunications costs are saved (Lunt, P., ABA Banking Journal, September 1995, p. 46).

We can plainly see that there are many factors having great importance, when dealing with the economy. There are many things we must take into consideration in order to make any kind of an informed economic decision.