American Research Journal of Business and Management

Volume 9, Issue 1, 67-71 Pages
Research Article | Open Access
ISSN (Online)- 2379-1047
DOI : 10.21694/2379-1047.23008

Voluntary Insurance for Speedy Growth-Trends of Digital-Financial Transactions in Bank-Led Digital-Banking Service-Market: Seeking Attentions for Policy-Design in California Economy

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ABSTRACT

Digital banking is an important product in today's financial sector country-wise. Unlike in any other states in the US, Californians have higher but slow growth trends of digital financial transactions where the FDIC provision does not cover digital-banking transactions. Customers and probable customers here face pitfalls being it riskiness including psychological risk. Overcoming the dilemmas of perceived-risk factors, the inclusion of Voluntary Insurance as a new product in bank-led digital-banking service-market can ensure Californians to be cashless society soon. This new and increasing value is what will keep banks or business firms growing, which can ensure absolute risk-free digital banking services in California economy. Historical trends of economic growth of California certainly ratify that addition of a new legal product will improve economy beyond just immediate gratification of its consumers. Any new products and services are the lifeblood of a firm for running the operation smoothly. Without them, a firm withers on the vine and either it dies or is absorbed by another firm. The banking sector is no different here. So, the inclusion of the VI product in policy-design for effective digital-banking services in California-economy can ensure speedy growth trends of digital-transactions. Once the VI as a product is in place, it will spread from bankers to customers and its growth trend (S-curve) will capture the growth of revenue or productivity against time. This growth will be slow as the new product sets up itself but at some point, digital banking-users will begin to demand it. So, the product growth trends will increase rapidly, which will ensure a higher number of digital transactions than that are there today in the digital-banking service-market. Over time, it will ensure Californians to be cashless society soon, which will place California to be the number one in the US and beyond. The goal of this study is to bring these VI policy recommendations to policymakers and bank-management's attention.

KEYWORDS: *Digital banking, Perceived-risk factors, Cashless Society, Akim's Model, VI as a new product in e-banking services.*

INTRODUCTION

In today's business-driven world, services are conducted in multifaceted, competitive, and rational manner where innovations of banks & FinTech are contributing significantly to digital-banking service-market. Here digital banking is an important product in any financial sector such as the California financial sector. However, in the digital-banking service-market, there are factors that are often unpredictable. Here customers and probable customers face serious pitfalls being its riskiness including psychological risk. Unlike in other states in the US, Californians have been slowly but gradually switching to digital financial transactions from the conventional banking system where the FDIC provision does not cover digital transactions. Customers here compete for time-saving options. Banks compete to marginalize its operating costs and then enhance revenues. In this business world, sometimes customers do not read terms & conditions of services when they open a bank account, do not save contract copies, and do not exactly remember the number of transactions or transaction-amount in his/her account. These weaknesses cause abuses. A customer faces perceived-risk-factors such as hidden charges, *extra* fees, account hacked.

Addressing the issue, Akim Rahman (Rahman, 2018) proposed in literature Voluntary *Insurance* as a new product in digital-banking service-market. It can be a guidance to policymakers of economy country-wise for ensuring absolute risk-free transactions in digital-banking services-market.

Despite well recognition of the proposal "the VI as a new product, in literature, no economy country-wise has the

VI policy in place yet. Thus, no financial sector of economy country-wise has yet introduced the VI as a new product in its digital-banking service-market where US-economy particularly the California-economy is no exception.

With this limitation, the goal of the current effort is to bring the VI policy-recommendation to policymakers and bank-management's attention. So that the financial sector of California-economy introduces the VI as a new product for the greater interest of its customers and for attracting probable customers to digital-banking service-market for enhancing the number `of digital banking transactions.

WHY IS CALIFORNIA-ECONOMY?

It is well recognized that California's economy is diverse. But its greatest asset is technology and the Bay Area in particular – as the global center of innovation (Randolph, 2022). As reported, Tech establishments here account for nearly one-fifth of the economic value produced in the State of California Randolph, 2022). It supplies $520 billion, which stands for more than a quarter of all the US Tech output. It is more than the next four states combined. As reported, California leads the nation in tech businesses, and it dominates the IPO pipeline with 56% of the nation's private companies (Randolph, 2022). Silicon Valley ranks as the world's No. 1 startup ecosystem. *Lastly but not least*, as it appears from the pandemic crisis, California's strength in science and technology is undiminished.

So, the Californians here enjoy this tech-based excitement and try to make lifestyles to be tech-driven as much as possible. Thus, as time passes, business firms and banks add new tools for attracting more customers to their businesses & services. In this *scenario*, the banking sector of California is no different. Over time, California Financial Sector has encompassed different banking tools and been seeing higher but slow growth trends of number of transactions in digital-banking service-market in California-economy (Quackenbush, 2022). As reported, the financial institutions in North Bay area are taking advantage of this technology to reach customers who are not physically visiting their branches (Quackenbush, 2022).

A recent survey conducted by the American Banking Association (ABA) shows that mobile banking in California Wine County picks up growth trends of using it. The summary of data statistics of surveyed people on mobile banking trends in California is as follows:

Table 1. Summary data statistics on mobile banking trends in State of California
79% of people surveyed use a mobile banking device at least once in the past month.
54% used it more than three times monthly.
Of people aged 18–34, 92% have used mobile banking devices and 57% of those over sixty-five.
54% of adults have used a mobile app to transfer money or make a payment. It is up from 34%, which was three years ago.
Source: American Banking Association survey, 2022 **Sources:** "5 tech trends helping the unbanked access financial services," American Banker, Oct. 31; Federal Deposit Insurance Corporation's 2021 National Survey of Unbanked and Underbanked Households

These data statistics clearly show that the State of California is still behind when it comes growth trends of using digital banking services compared to growth-trend of its successes in other areas. Also, State of California is known to be the best in the United States when it comes Tech based activities (American Bank Association Survey, 2022). All these together, California can be in number one position in the USA and beyond, if it could promote the growth trends of numbers of transactions in digital-banking service-market. Obviously, the VI as a new product in digital-banking service-market can play a significant role in this journey, which can be a win-win for parties involved.

Voluntary Insurance: What is it? How can it be instrumental in digital-banking service-market? Justification of policy choices

What is it?

Addressing the issues that undermine digital-banking progression in California State, *Voluntary Insurance* (VI) is proposed as a new product in digital-banking service-market. The financial sector can introduce it as a product in operation where a bank or third-party can collect premium ensuring secured digital transactions.

How can it work in the digital-banking service-market?

The way it will work is because a customer's participation will be voluntary. Insurance will be attached to a customer's account if the customer wants it for digital services. Since the program will be designed as a way of transferring the risk away from its premium-payers, it will ensure premium-payers with a sense of certainty. Here premium receivers will take *extra* measures for ensuring the risk-free digital-banking service-market. For example, ATM Card or Credit Cards can be protected by setting two identifications such as password and a finger-scan. Suppose a customer wants to use ATM card for accessing his account, the customer will have to use two identifications namely own setup password and previously chosen finger-scan say his thump or forefinger scan. Here finger scan in addition to password can be connected to the ATM system, which will make digital banking enhanced secure. Overcoming the risk of heist or hacker's access to the customer's bank accounts, under the proposal, similar own set up identifications can be used. In global banking cases such as remittances, the program can ensure risk-free digital banking services. Since customers' psychological risk-factor undermines today's digital-banking progression in California-economy, the VI product can be instrumental in overcoming the *dilemma*.

Justification of Policy Option "Voluntary Insurance" as a new product

It is clear now perceived-risk factors including psychological risk play an influential role in setting the stage for the proposal, the VI as a new product in digital-banking service-market. It is palatable assuming that E-banking-customers are risk-averse, *i.e.*, they prefer certainty to uncertainty when it comes to banking. Fig-1 illustrates the risk preferences of a risk-averse banking-customer in digital-banking service-market.

In a world of uncertainty, a customer's actual utility that he receives from digital services will never fall on the TU (X) but rather on the chord (the bold line). X_g stands for a service outcome in which customer may use a certain level of service X while X_f stands for a negative outcome in which customer may use less of service X. If there is a level of uncertainty that a customer may not use X_g units of service X, the utility that this customer receives will lie somewhere on the chord (the bold line). The chord stands for the expected utility (EU) of using service X, which lies in the concavity of the curve because it is the average probability that the customer will use service X or not. As a result, an individual will never receive TU (X_a) but rather EU (X_a).

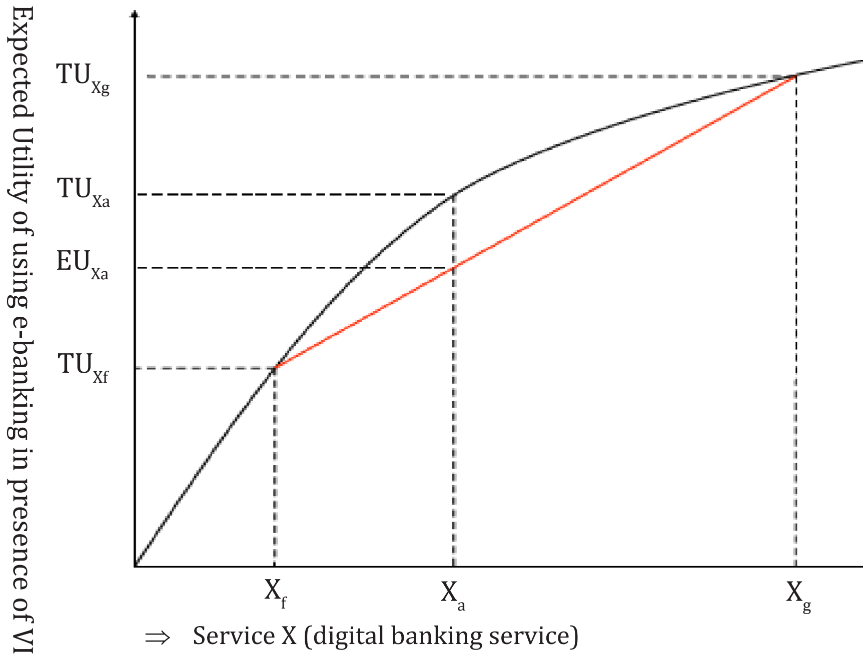

Fig 1. Risk Aversion Scenario in digital-banking service-market

GOAL OF THE CURRENT EFFORT: HOW CAN IT BE INSTRUMENTAL?

The goal of the current effort is to bring the issue to policy practitioners' attention so that the proposed new product can be introduced as a new product in the digital-banking service-market in California-economy. This raises questions: how can this new product be instrumental to the banking sector and to Californians? Why is it important? Why now?

Answering the questions posed, it is palatable to say, transferring risk away from customers will directly help both private commercial banks (PCBs) and customers. It can further attract new customers who were on the brink using digital banking but just felt it was risky – *psychological risk-factors*. The model can ease the customers with incentives, i.e., a rebate system for increasing numbers of digital-transactions in digital-banking service-market while keeping best utility of it.

Prospects of the VI product in California-economy

Once policy-practitioners and bank-management recognize the importance of the proposed VI product under Akim's model and introduce digital banking-provisions that authorize the VI as a new product, it may spread from bankers to customers in California-economy and beyond. This process of life cycle of the VI product can be described using the "S-curve' or diffusion curve. This S-curve will map the growth of revenue or productivity against time. In the early stage of this journey, growth will be slow as the new product sets up itself. At some point, customers will begin to demand the VI product in the digital-banking service market. In this market having a rebate policy on the number of transactions can be further instrumental. So, the product growth trends will increase rapidly. These new incremental changes to the product will allow the growth to continue. Toward the end of its life cycle, the growth will slow down and may even begin to decline where no amount of new investment in that product will yield a normal rate of return. However, it will set up a secured bank-led e-banking through bankers who introduce this new product, which can present a Cashless Californian-society soon.

This successive S-curve will come along to replace traditional banking and will continue to drive growth trends upward where the VI will have "product life" i.e., i) a start-up phase ii) a rapid increase in revenue and iii) eventual decline. But it will never get off the bottom of the curve and will never produce normal returns. In these advances, it will play vital roles presenting a secure system of bank-led e-banking, which is needed to attract today's probable customers.

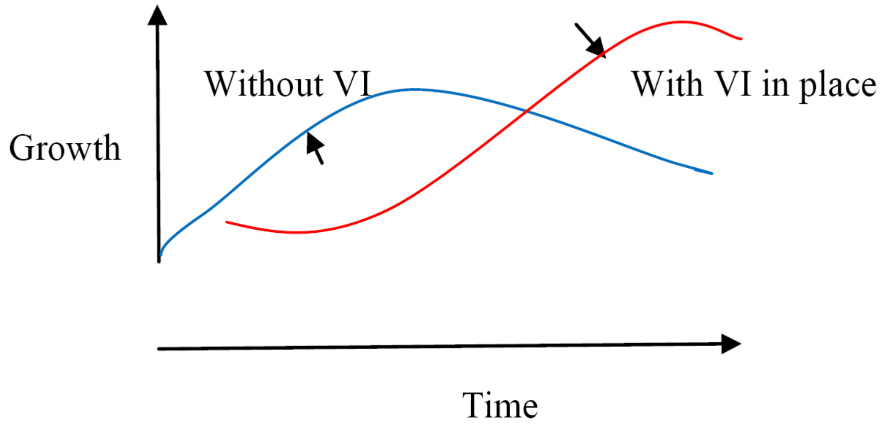

Fig 2. Impacts of the VI in California-economy through digital-banking service-market

Over time, this progression will welcome a cashless society soon (Covergenius.com, 2022). In Fig. 2, the first curve shows a growth evolved from today's mixture of traditional and digital banking services in California-economy. The second curve shows, with introducing VI in digital-banking service-market that currently yields slower growth trends but will eventually overtake the current growth rate and will lead to even greater levels of growth trends. When time comes, the digital-banking progression in California-economy will be an example to other states of the United States and beyond where economy may follow the State of California footsteps when it becomes necessary to efforts for ensuring absolute risk-free e-banking services. Thus, someday the economy country-wise can present a cashless society where the State of California's initiative efforts will become a part of history.

With this win-win setting for a producer and a user of the product in the e-banking service-market, the California financial sector can be well recognized globally. To sail through tough competition and to sustain revenues, the financial sector state-wise in the US is engaging more than that of other kinds of bank on adoption of IT in its operation (Randolph, 2022). However, it has failed to reach out to a major number of customers in the case of enhancing e-banking transactions in the California economy. Thus, the situation deserves policymakers and bank-management's attention for effective policy-design so that the prospects can be materialized soon.

CONCLUSION

It is now well recognized that over time the California Financial Sector has encompassed different banking tools and has been seeing higher but slow growth trends in the number of transactions in the e-banking service market. Meeting the challenges of today's slow growth-trends of digital-banking usages in any economy such as California-economy, adding Voluntary Insurance (VI) as a new product in digital-banking service-market can be impetus. This new and increasing value is what will keep banks or firms growing, which can ease economy booming further in the State of California. Particularly in today's business mentality world, companies and civilizations have little choices but to grow and improve if they want to move from survival to thriving. Trends of development history country-wise show that, any new products and services created and provided by companies of all sizes supply the mechanism for its economic growth and improvement. The banking sector is no different here. So, the inclusion of the VI product in policy-design for effective digital-banking services in California-economy can play significant roles for speedy growth trends of e-banking transactions. Once the VI as a product is in place, it will spread from bankers to customers and its growth trend (S-curve) will capture the growth of revenue or productivity against time. This growth will be slow as the new product sets up itself, but digital banking users will begin to demand it eventually in the journey. So, the product growth trends will increase rapidly, which will ensure a higher number of e-banking transactions than it is today, which will ensure a cashless society soon. It will place California to be the number one in the US and beyond.

So, the question is: can policy-practitioners of State of California play role for better-ness of its modern-society when it comes e-digital-banking services? The answer to the question posed is, YES, where efforts of policymakers and bank-management in California can play significant role for the better-ness of its economy as well as for Californians there, which can ensure cashless society soon.

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Citation: Akim M. Rahman, "Voluntary Insurance for Speedy Growth-Trends of Digital-Financial Transactions in Bank-Led Digital-Banking Service-Market: Seeking Attentions for Policy-Design in California Economy", American Research Journal of Business and Management, Vol 9, no. 1, 2023, pp. 67-71.