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Chapter XIV

Strategic Models for the Delivery of Personal Financial Services: The Role of Infocracy

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ABSTRACT

The growth of the Internet and the rapidly evolving regulatory climate in the United States and abroad have radically altered the environment of the financial service industry. This chapter focuses on integrated personal financial services (IPFS) — the integration of services such as banking, insurance, and investing for the end consumer — in this new, networked economy. It identifies three different business models for the delivery of IPFS. It explores the concept of an infocracy, a form of organization in which information provides the underpinning of structure and the basis of individual power, and addresses its implications for the management and success of the alternative IPFS business models.

INTRODUCTION

In recent years, two factors — a relaxed regulatory environment and the growth of the Internet — have changed the competitive landscape of the personal financial

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services industry. Prior to the mid-1990s, active federal enforcement in the United States of the 1933 Glass-Steagall Act prohibited joint ownership of banking, insurance, and securities trading companies. Similar laws hindered horizontal integration in the industry abroad. As the regulatory environment eased in the late 1990s, mergers, such as that between Citibank and the Travelers Group, occurred as financial service companies sought to increase their market reach. But it was not until 1999 that the passage of the Financial Modernization Act finally allowed bank holding companies, securities firms, and insurance companies to combine operations. Subsequently, consolidation in the industry accelerated as businesses prepared to take advantage of potential economies of scale and reach and the promise of providing an integrated financial environment for their customers.

The growth of the Internet has also changed the delivery of personal financial services. People are beginning to trust the Internet with their money and are not afraid to use it for banking, investment, and insurance. Pure Internet banks have emerged, and traditional banks have endeavored to design effective strategies for integrating Internet and conventional channels, also known as bricks-and-clicks.

It is natural to assume advances in the Internet and other information and communication technologies might affect how financial service companies address the potentiality of horizontal integration subsequent to deregulation. Had financial regulation eased 10 years ago, most companies would have had little choice but to pursue a strategy of acquisition and merger to attain the capacity for providing integrated financial services and to preserve market share. However, the Internet creates opportunities to build organizations, real and virtual, based on the control of information rather than the ownership of assets. Through this means, the structure of financial organizations in the post-Glass-Steagall world has begun to reflect their strategy, their origins, and their beliefs regarding the role of information in organizational control.

In the following section, we first review the literature to understand how researchers believe information technology (IT) affects the structure of organizations. We then address what an ideal world would look like from the perspective of the consumer of personal financial services. We also analyze how businesses are leveraging information technology to transform themselves to satisfy this ideal. We examine the concept of an infocracy — a form of organization proposed by J.G. Clawson, in which the basis of power is information — and show how it applies to the alternatives for financial service organizations in the coming decade. Finally, we examine the managerial and research implications of this concept.

HOW IT AFFECTS ORGANIZATIONAL STRUCTURE: A HISTORICAL PERSPECTIVE

Researchers have widely observed that information technology plays an important role in shaping organizations and molding the nature of work (Bartezzaghi

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