

UNIVERSITY OF ESWATINI

DEPARTMENT OF BUSINESS ADMINISTRATION

MAIN EXAMINATION PAPER

JUNE, 2019

TITLE OF PAPER : ELECTRONIC COMMERCE

COURSE CODE : BUS 426 FULLTIME / IDE

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS:**
- 1. THE NUMBER OF QUESTIONS IN THIS PAPER FIVE (5)**
 - 2. SECTION A IS COMPULSORY.**
 - 3. ANSWER ANY THREE (3) QUESTIONS IN SECTION B**
 - 4. THE MARKS TO BE AWARDED FOR EACH QUESTION ARE INDICATED ALONGSIDE THE QUESTION.**

NOTE: MARKS WILL BE AWARDED FOR GOOD COMMUNICATION IN ENGLISH, AS WELL AS FOR ORDERLY AND NEAT PRESENTATION OF WORK. FURTHER MARKS WILL BE AWARDED FOR USE OF RELEVANT EXAMPLES.

SPECIAL REQUIREMENTS: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

FROM PAPER TO E-PAYMENTS : THE STORY OF WELLS FARGO HOME MORTGAGE

The largest home mortgage originator in the United States is Wells Fargo Home Mortgage. It has a portfolio of more than 4.6 million loans. For most of its history, Wells Fargo's loan customers *have* made their payments the old fashion way-mailing their Cheques on a monthly basis to Wells Fargo's network of external lock boxes. A sizeable portion of its customer's *even* drops off payments at local Wells Fargo Bank branches. For some time, it has provided a telephone payment program enabling customers, who *have* forgotten to mail their Cheques, to make payments at the last minute in order to *avoid* late fees.

With this large of a portfolio, the costs of handling paper collections can *have* a substantial impact on the bottom line. The cost to Wells Fargo of simply clearing Cheques is more than US\$1 million annually. To address this problem, in 2000 Wells Fargo embarked on a program to increase collections efficiency and reduce the costs of processing payments. In the first quarter of 2000, the ratio of paper to e-payments was four to one. At that time, three e-payment options were available to customers: direct payment, equity payments, and third-party processors. Of those using e-payment options, 350,000 were using direct payment, 100,000 were using equity payments, and 133,000 were utilizing third parties. By 2002, Wells Fargo Home Mortgage was offering a full suite of e-payments methods, including:

- Automatic Mortgage Payments-ACH direct payments.
- Online Payments-internet-initiated ACH debits.
- Just in Time- Telephone-initiated ACH debits.
- EBPP-Statements are presented and bills can be paid online at a Wells Fargo hosted Web site.
- Wells Fargo Equity Enhancement Program (EEP) Payments are debited from a customer's bank account *every* 2 weeks.

With the addition of these methods, customer acceptance and use of e-payments began to grow. In the first quarter of 2002, Wells Fargo processed 3.4 million e-payments. By the third quarter of 2003, the number was 4.3 million e-payments, an increase of 26 percent.

In that quarter, the ratio of paper to e-payments was 1.9 to 1. Even with the growth in e-payments, however, in 2003 lockbox payments still accounted for close to 60 percent of all payments. For Wells Fargo, the lockboxes were by far the most expensive payment method. The cost was US\$3 per loan annually. At the other end, ACH direct payments produced US\$11 in cost reduction and float annually.

In 2002, the NACHA rules governing accounts receivable (Cheque) conversion (ARC) went into effect. ARC is a service that allows consumer Cheques sent to a lockbook or drop box location to be converted to ACH electronic debit. Under these rules, consumers authorize the conversion of the Cheque payments to electronic payments when they mail their remittance and Cheque to the biller. Before the conversion can take place, the biller must communicate its conversion intentions to the customer the billing documentation. In essence, the conversion takes place unless the customer objects. ARC is well suited for repetitive payments, such as mortgages, utility bills, insurance payments, and the like. The challenge for

the biller rests with streamlining and automating the process of converting Cheques to ACH debits to achieve a high acceptance rate by consumers. In 2003, Wells Fargo Home Mortgage became the first mortgage company to implement ARC. By November 2004, four out of five of its lockbox locations were converted. Few customers opted to remain with paper cheque payments. Overall, the ARC program succeeded in turning the tide toward e-payments. By the end of first quarter of 2004, e-payments comprised 88 percent of Well Fargo's loan portfolio, up from 35 percent in the pre-ARC era. At the end of the fourth quarter of 2004, the ratio of paper payments to electronic payments was one to seven. The financial impact of the ARC program has been twofold.

First there has been close to a US\$2 million savings from decreased bank fees and increased float. Second, the collection rates for Cheques returned due to NSF (insufficient funds) has increased significantly. Wells Fargo Home Mortgage's experiences with ARC are not unique, although the shift from paper to e-payments is ground breaking. According to the NACHA, ARC entries went from 5.3 million in 2002 to 43.7 million in 2003 to 20B million in the second quarter of 2004. In 2004, ARC payments totalled US\$60.3 billion. ARC is now the largest e-Cheque ACH application.

Questions

1. Like many other financial institutions Wells Fargo Home Mortgage (WFHM) has offered a number of e-payment options to its customers. Describe the options WFHM offered before ARC. Why weren't these options sufficient to move WFHM's customers from paper to e-payment?
[20 marks]
2. Based on WFHM's experience, if a company wanted to convince its customers to adopt online payment, what advice would you offer?
[20 mark]

SECTION B

Question 1

Discuss the methods of perpetration and preventive measures regarding online fraudulent payments. [20 marks]

Question 2

The forth years are thinking of auctioning a product they developed. Should they have their own auction site or should they use a third party site? Discuss. [20 marks]

Question 3

Name and discuss the factors that are used to measure online customer satisfaction with metrics. [20 marks]

Question 4

Mrs Dlamini who sells traditional attire online is debating whether to use an in-house payment mechanism or outsource it what would be your advice to her. [20 marks]