

INTERNET BUSINESS BANKING

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New Business Banking Platforms come at a \$140 a month costs but promises to lift ½ million Small and Medium business into big business treasury cyberspace

FINAL RELEASE

Press Embargo 12.05am Tuesday 8 April

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New Business Banking Platforms come at a \$140 a month cost but promises to lift ½ million Small and Medium Business into big business treasury cyberspace

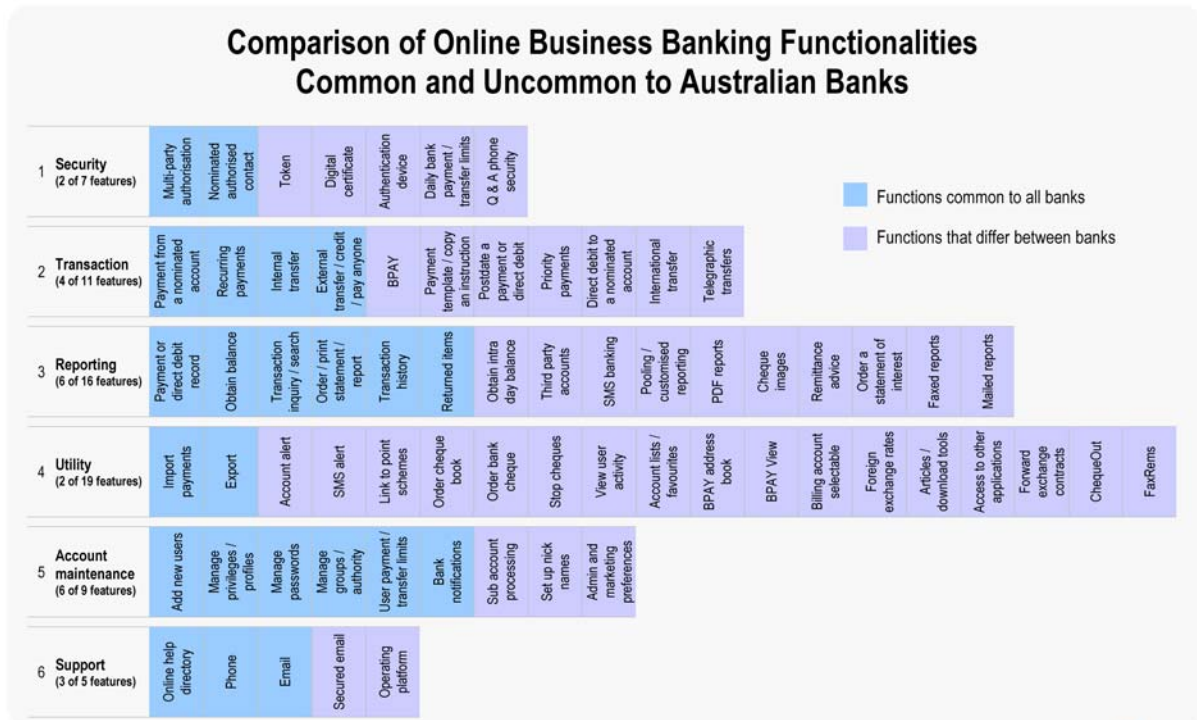
MISC says a new phase in Internet Banking adoption will eventually remigrate at least ½ m of the 1.2m Internet banking small and medium business to their own dedicated business banking platforms. For a relatively modest set upfront fee of \$80 and \$140 a month these new Business banking platforms ultimately promise to provide Australia's Medium and Small business operators with some of the sophisticated treasury functions once the domain of only a privileged few large corporate's. MISC says the banks may ultimately prove to be the catalyst that drives a smarter more efficient small medium business sector in this country.

A symbiotic relationship has evolved as the banks use technology to get closer to their elusive business banking customers and the customers use the banks to bring them financial management sophistication they could normally not afford. The MISC Internet Banking Pool measures the existing banking behaviours of small business and medium business on the Internet banking platform they share with consumers but not the specialist business banking. MISC says that since the retail Internet banking platform was offered to SME 's in 2000. (MISC was then entrusted by the banks to set up a measurement Pool in 2000) the take up by online SME business bankers has grown by some 83% p.a. to now represent 1.2 m. MISC believes that the new migration of these SME customers to now their own dedicated business banking platform or solution will occur at least at the early pace already experienced (i.e. in the first 3 years). At this milestone 268% growth was recorded. This would see some ½ m of these 1.2m established SME Internet bankers migrate a second time. There first was to the shared retail internet banking platform and now MISC says, the next phase will be one further step of sophistication to their own dedicated business banking solutions they might share with medium sized businesses affording SME 's with access to the advanced functionality that has been enjoyed, till now only outside the web environment by MDMS (medium businesses).

There findings are from the MISC (Market Intelligence strategy Centre) soon to be released White Paper on Online Business Banking developments in Australia and Overseas titled "*Breaking the fee nexus*" prepared by MISC for its Internet Banking Pool members.

MISC describes these new-dedicated business platforms and enhanced solutions as potentially mini treasury operating support, with functionality profiles and flexibility that set them apart from existing Internet Banking those consumers have grown to trust. Such dedicated business facilities provide now a suite of business banking tools that differ from the tools provided in normal retail Internet banking portals used by SME's. Now some 7 banks provide special Business-banking portals with 4 using the SME/Consumer platform (but with enhanced business functionality (e.g. Bank West and Bank Of Qld).

MISC says a new business paradigm is being re drawn as the banks migrate their medium sized business customer across from PC based systems to dedicated Web based solutions and eventually move SME's from shared retail focussed Internet Banking platform/solutions to now shared business solutions.



Source: MISC (Market Intelligence Strategy Centre) New Business Online Banking White Paper



The MISC group's survey of the domestic offerings reveal that the new Business Banking portals that evolved from PC based (medium business solutions) generally provide more business orientated transactions e.g. Priority payments, International nominated debits, enhanced security (mostly though tokens), a richer reporting processes (e.g. intra daily balance, muti payments), SMS inquiry alerts, even viewing of cheque images and significantly advanced account maintenance options to police multiple use and authorities. But says MISC the survey of additional less common functions offered by single banks show that each banks has sought to make its own unique stamp though different business offerings on their platforms and price accordingly. Its research shows also that there is considerable breadth beyond these common functions and features noting that among the banks a further 19 reasonably unique features will be added by different banks. Such features might include: viewing cheque images, tracking user activity, privileged delegation linking to point schemes e.g. frequent buyer schemes and special payment streams e.g. Westpac's ATO payments. Payment uploads

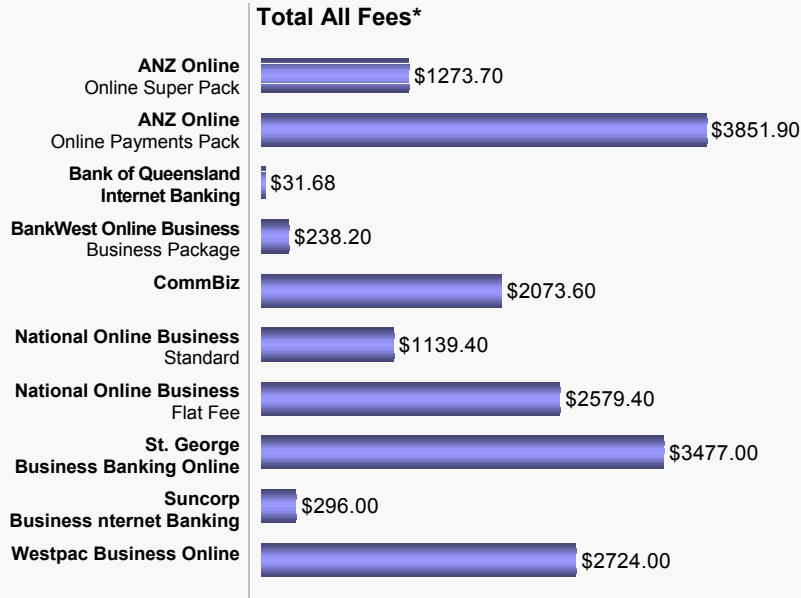
MISC says that this development and a new level of sophistication being now provided to both business sectors for small and medium business come at a relatively low cost. Its survey of real cost to business show that a typical small business will pay an average just \$80 for special tokens and set up costs and just \$140 on average a month. MISC says that most banks will have reasonable close ongoing and set up fees but occasionally the banks will adopt a more unique fee stance either relying on larger set up fees or in some cases larger ongoing fees (usually for bigger customers). Some banks eg Bank of Qld will even dispense with up front or monthly fees For larger business

enterprises with 2000 plus employees the set up cost will generally be higher -on average \$201 while monthly fees will commonly be lower around \$68 on average.

New Online Business Banking Facility Costs Indicative Small and Medium Business Set Up and Ongoing Costs*		
	<i>Indicative Small Business#</i>	<i>Indicative Medium Business</i>
Business Banking Establishment and Set Up Costs (Includes min and max cost)	\$80.34 Average \$0 Min \$261.00 Max	\$201.64 Average** \$0.00 Min \$698.50 Max
Business Banking Monthly Operating costs (See typical monthly activity demands)#	\$140.68 Average \$2.64 Min \$312.85 Max	\$68.11 Average \$3.41 Min \$171.45 Max
* Monthly cost include set up charge amortised over first 12 Months plus monthly fees		
** Commonwealth CommBiz includes a direct debit user establishment fee of \$550. It is only applicable where a user first applies to become a user of the direct debit system. It does not apply where the generic CommBiz APCA ID allocated by the bank is used.		
<i>Source: MISC (Market Intelligence Strategy Centre) Internet Banking Data Pooling Facility Dec Quarter 2007</i>		

MISC has traced some 6 indicative small and medium businesses and surveyed their banking requirements to permit modelling for each of their banking costs using the new platforms and solutions. (See Schedule) Such an indicative small sized business with some 50 employees and 1 administrator of its accounts will incur an up front fee typically around \$80 with a monthly average of \$140 in operating costs when the Once off establishment fees are amortised over a year. The above table shows that such monthly costs will vary by a small margin .The further table by bank cost shows that annual all up costs are either below \$300 or will range from \$1273 to \$3800 or \$106 to \$316 a month. The ANZ payments pack still has PC based solution relies on lower access but higher transaction costs. Bank West waves most set up fees except for multiple tokens nor does Bank West have an annual fee .For this says MISC a small to medium business will typically pay all its staff in one transaction, pay its multiple suppliers and monitor them either through BPAY or direct. It may make international transacts at least weekly, make limited priority payments and access the range of dedicated reporting services at least fortnightly.

Comparison of small import business example with annual set up costs amortised*

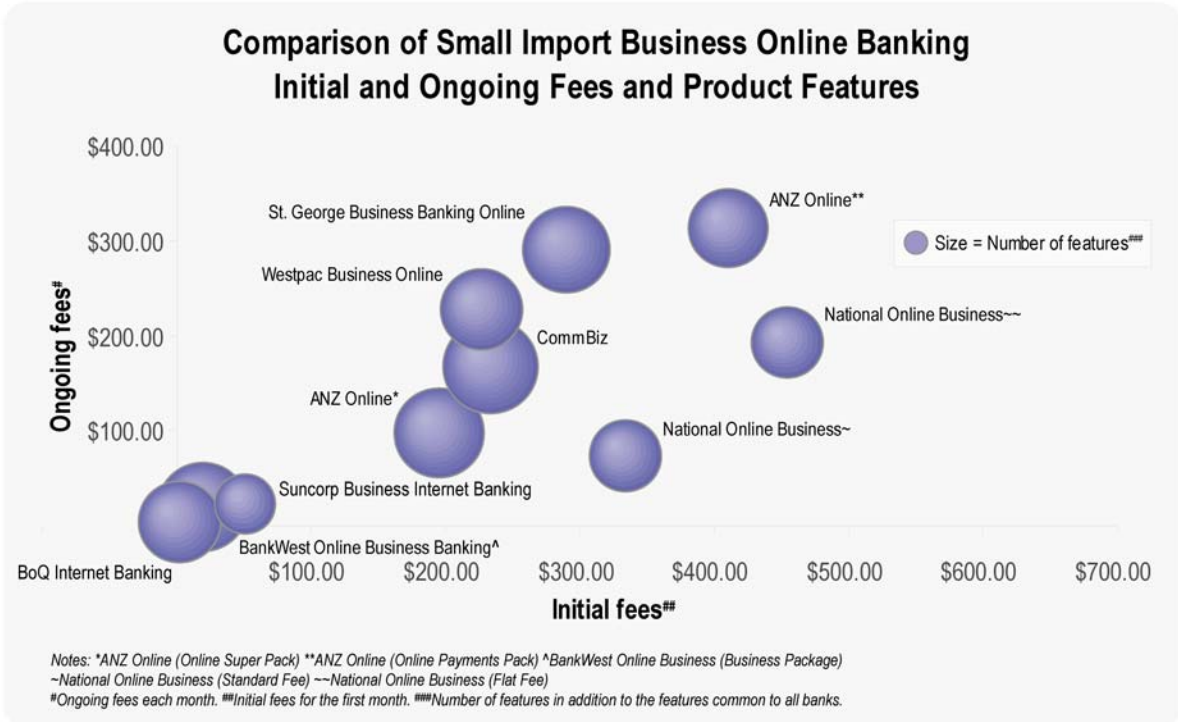


*Note: Comparison of initial and ongoing fees over a 12-month period.

Source: MISC (Market Intelligence Strategy Centre) Online Business Banking White Paper



In addition these same businesses will enjoy a greater level of security from the enhanced system deployed. The table for a small business (i.e. a small import business with 20 employs and 1 administrator or/accountant) show that total fees will only vary by 238% Even against the median fee that MISC calculate across all 6 business examples (see Schedule of business types) still the pricing differences are relatively small but MISC says these differences can often be explained by real difference in business accessed functionality that may in most cases well justify a premium. It's mapping of fees by bank correlated with the extent of the services provided highlights this i.e. the bigger the circle the greater the service provisions.



**Source: MISC (Market Intelligence Strategy Centre)
 New Business Online Banking White Paper**



Schedule I: Note to Editor- History of Business Banking

The MISC White paper "*Breaking the fee nexus*" chronicles the recent Web development of specialist-dedicated business banking platforms and solutions, which were first introduced in the UK as early as 2001 by HSBC and Citi Bank (Java based only). Around the same time, all Australians were offered an internationally advanced way of banking over the Internet. The response was unexpected, with more than 9 million Internet banking customers* eventually registered making Australian Internet bankers among the most active (per capita in the world). These customers included both consumers and SME 's utilizing the one web based platform. All banks were quick to provide this shared platform to their SME customers assuming consumer-based functionality was adequate for small business. What's more even before this, Australian banks were quick to recognise the unique requirement of bigger business (typically medium and large) having developed PC based specialist banking systems for their larger business clients. Banks like Commonwealth ANZ, Westpac and National even before Internet banking was launched were by the mid 90s serving this group with PC based solutions eg National had its National Online Business and Commonwealth Bank its Quick line. Westpac had also developed its *desk bank* PC product. The regionals too, were early innovators in this regard. Bank West for instance launched its business PC based solution in the 1990s. Hence by the start of retail Internet banking (mostly in 1998 and 2000) Australian banks were variously serving three business customer groups. First the SME's though web based single platform Internet banking. Next the medium sized businesses though PC based systems and the big end of town via software based Host-to-Host specialist offerings, all with advanced functionality. The PC based solutions offered from day one a rich and advanced (range of functionalities eg spit functionalities, batching etc) but with more limited responsiveness, flexibility and a lower threshold of interactive ness.

From a customer standpoint the machinery deployed behind the offering is of little consequence. The exception is the separate log ons and separate passwords required by some systems to identify both business and consumer customers (when they are the same). Regardless of this and the different machinery each of the solutions has provided rich business functionality but limited flexibility from their inception. The next phase however was the gradual migration of business customers away from the PC based system into a web based environment .As the retail offerings of Internet banking was just building, Westpac was among the first bank in 2000 to bring its medium sized business customers across to a Web based environment when it launched its *Business Internet Banking* essentially as a layer sitting on its retail Internet banking offering but with extended business functionality. Suncorp began its later migration to a web based system when its *Business link* product for a brief time operated as PC based and then migrated in a similar fashion to Westpac onto its Internet Banking Platform with retail and business defined offering and functionalities. Bank of Qld had by then built its own business customer PC based system, which it eventually (like many others) decided to migrate into its base Internet Banking Web offering. Similarly the St George E Bank PC based system by late 2001 had been migrated to its retail Internet banking platform *business banking online*. It was BankWest by 2002 that first chose a different system, establishing a separate small business platform with separate functionality for its PC software solution customers. This was the precursor to the decision by two of the majors to take a separate platform approach.

A change in solution was heralded in December 2006 by Commonwealth Bank when it migrated its well, established *quick line* customers to a new dedicated business platform CommBiz. It then began migrating

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additional SME customers from its main retail, Internet Banking platform to this sperate business platform. Not long after National bank began trailing its *NAB Connect* new platform with its existing Online PC based customers while at the same time retaining and developing (like other banks) its big end of town-dedicated offerings. By April 2006 Bank West had migrated its business-banking customers, now on to one combined updated platform, with consumers but offering business customer much richer functionality to provide a package called *Bank West Online Business Banking*. It was not long before other banks joined including regional banks like Bank of Queensland, who later in 2007 closed its dedicated Business bank site and migrated users back to its Consumer offering. Its policy contrasted with that of Bendigo bank who was an earlier business banking innovator who sought to selectively enhance its shared consumer and SME platform with special SME functionality and special business security tokens. The new phase is now gathering pace after these early initiatives. In 2008 this development is set to advance again as ANZ is scheduled to launch its dedicated Business banking solution like the Comnbiz model and the National bank further roles out its *NAB Connect* system which will migrate all of its National Online Business customers and possibly some of its retailer platform SME's. Even specialist banks like HSBC and RaboBank are becoming active in this phase. Rabobank had earlier launched their own specialist platform for the rural SME 's and Business community in May 2007 (Rabo Bank Plus) after an earlier initiative in New Zealand while HSBC is scheduled later to launch its dedicated Business platform called *HSBC Business Internet Banking*. .

* *MISC Internet Banking Pool results at December 2007 some with multiple Bank registrations.*

Schedule II: Indicative Small and Medium Business Profiles

Hypothetical businesses based on real life example were created comparing the different business grade online banking facilities offered by Australian banks.

Business examples:

- Small import business
- Small rural farmer
- Small gym/fitness centre
- Large retailer
- Large Internet Service Provider
- Large real estate company

Schedule III: Profile of Indicative Small Business

Small import business

- 20 employees
- 1 administrator
- 1 business online banking facility
- 1 security devices (tokens/card/digital certificate)
- 3 accounts linked to online business facility

	Activity		Frequency (per month)	
Transfers	Internally	Moving money between accounts	4	
	Direct credits	Payments to suppliers etc	8	
	Wages	20 employees (20 lines)	4	
Bills	BPAY	Telecommunications etc	3	
Payments	International	Various services	10	
	Priority payments	Various	4	
	Cheque	Suppliers	4	
	Debited	Internet		1
		Rent (two factories)		2
	Others		1	
Cheques	Stop cheques		1	
Balances	Obtain balance		4	
	Intra day balances		10	
Reports	Transaction search		10	
Statements	Ordering statements		2	

Total All Fees – All fees including establishment, monthly access and single month use of the facility.

Total Establishment Fees – All fees required to set up the facility.

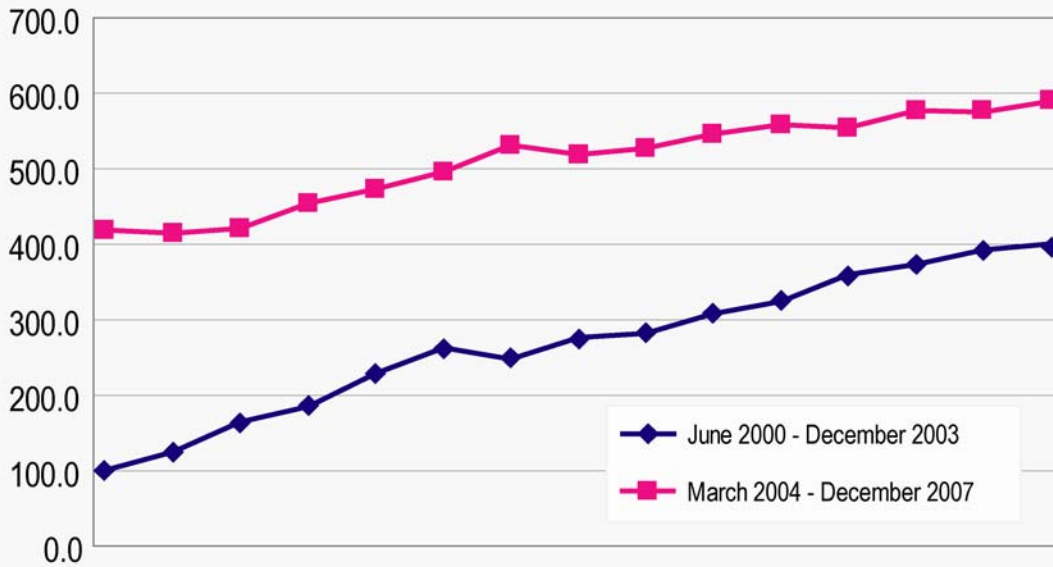
Total All Fees minus Establishment Fees – No establishment fee, only monthly access and single month use of the facility.

Total All Fees minus Establishment and Access Fees – No establishment fee or monthly access, only single month use of the facility.

Excluded are replacement security device cost and additional services including establishment of direct debit and remittance advice.

Additional note: This business example has been selected as an indication of the likely fees associated with the types of transaction activities listed above. In producing a comparison that is even-handed between the different bank offerings, common and probable fees to all banks have been chosen with less emphasis on penalty charges and optional features that may apply on certain occasions from bank to bank.

Growth Index - Total Number of Business Customers Registered Internet Banking Customers June 2000 to December 2007



Source: MISC (Market Intelligence Strategy Centre)
New Business Online Banking White Paper



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