

INTERNET BANKING

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1/3 of Bank customers prefer their Cyber Tellers as Banks offer Cyber teller options across 42% of on line services

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Banking in Cyberspace – with ‘Cyber Tellers’

1/3 of Bank customers prefer their Cyber Tellers as Banks offer Cyber teller options across 42% of on line services

A virtual Banking world is rapidly becoming a reality as more Banks and services offer Cyber teller facilities according to a special MISC (Market Intelligence Strategy Centre) Working Paper on recent developments in Online Application facilities by Australia’s leading Banks. The research paper produced by the Market Intelligence Strategy Centre (MISC) – the strategic consulting sister company of specialist industry researcher MINTEL, shows that in the past 18 months as Banks have rushed to embrace this new online phase, preliminary activity has seen their efforts rewarded with increased consumer acceptance. MISC notes that anecdotal evidence from Banks like Commonwealth Bank, Westpac and NAB suggest significant upswings in online application activity in this period.

MISC research shows that this early acceptance evidence (though anecdotal at this stage) not coincidentally, is associated with an observed change in consumer attitudes to the concept of virtual Banking. Regular quarterly consumer research undertaken by MISC (as part of its separate Internet Consumer Usage & Attitudes Survey of 3600 consumers each quarter) shows in the past 18 months 22% more consumers have been won over to a virtual Banking concepts and that now 1/3 of the population are likely to at least accept a virtual Banking option as opposed to face to face Banking. The research group points out that already 4.7m Australians regularly Bank via the internet (i.e. are registered Internet Bank users of the Banks who pool their statistics) but stresses that 65% still prefer face to face Banking service which indicates significant room for further acceptance. MISC consumer research also shows that while 27.9% might prefer virtual Banking, at December 2001 nearly 1/3 accepted this option. At the same time says MISC, its special Working Paper survey of Bank site application development indicates there has been a major change in the application offerings provided to Internet Bankers. While in September 2000, some “virtual application and purchase services” were provided across 25% of potential Bank product offering (i.e. services offered Online by Banks with sites) a 63% improvement had occurred by December 2001 with offerings reaching 41.5% of optimum potential.

Online Application/Purchases Poised For 2002 Growth As Coverage Rises To 63%

Key Market development highlights

18 months to December 2001

Recent 6 months application activity grows

Confirmed by anecdotal evidence eg Commonwealth Bank, NAB, Westpac

Aided by

Changing consumer attitudes as more accept virtual Banking option	Internet Banking Site Development	
	Acceptance of virtual Banking option	
	Survey	Population Share
	September 2000	26.9%
	December 2001	32.7%

18 Month Gain ↑ **22%**

Application offering expansion of 10 Banks as semi-virtual access grows	Site penetration semi virtual offering (Banks & services)#	
	Qtr	Coverage
	September 2000	25%
	December 2001	41.5%

Availability Gain ↑ **+63.3%**

#Application offering i.e. site penetration of semi virtual (Stage 2) capability i.e. extent of Bank services that can be completed in a semi virtual manner

Source: MISC (Market Intelligence Strategy Centre) Special Online Banking Activity Working Paper 2002/ MISC Internet U&A Survey

Evolution of Virtual Banking via Online Applications:

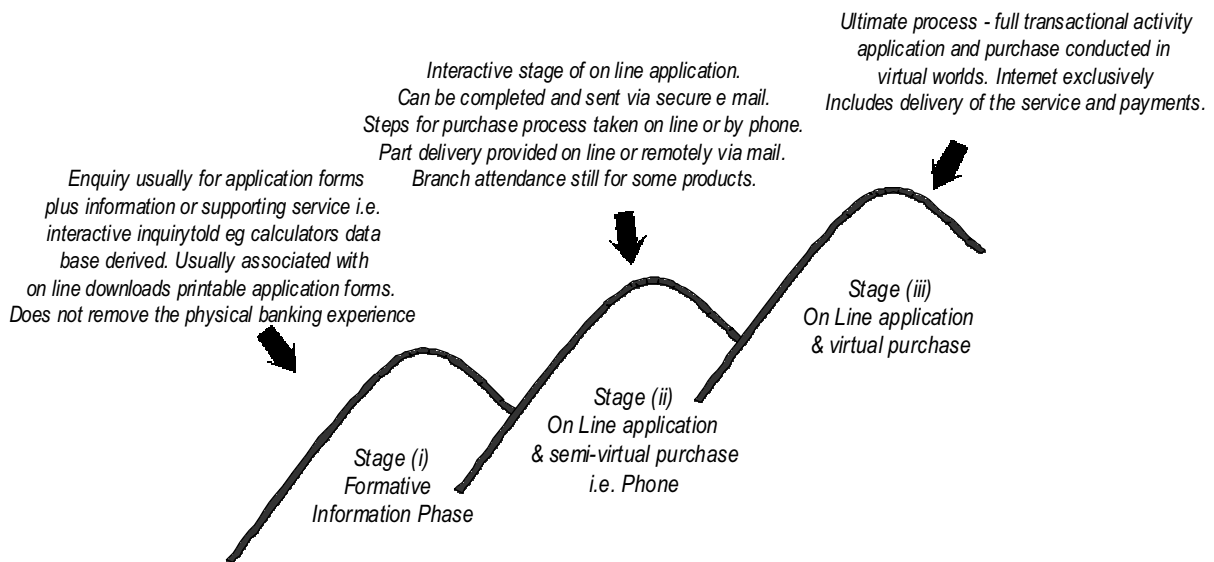
Since the first online application was made on the Commonwealth Bank site in September 1997 and Credit cards application 6 months after, it has taken more than 3 years for the Banks to move to develop a semi virtual new Banking product. The earlier stages were associated with the NAB's online personal loans initiatives in mid 1999 and support application initiatives like the Commonwealth Bank through (Property Finder Software). The first email acceptances came with the ANZ personal loan application extension and stockbroker applications and delivery was made "semi virtual" with St George when it offered a BPay payment option (which was later withdrawn). A semi virtual savings product option was also launched by ING with free fees. It was Commonwealth Bank though, who in addition to introducing many support information facilities, by March 2000 had expanded the online application service offerings with insurance quotes. These were soon followed by Westpac and later St George in 2000. While many Banks rushed to match the earlier initiatives, the product and service scope was greatly extended to encompass margin lending (Suncorp Metway) and managed funds (AMP and ANZ)

with business finance offerings by Westpac. The virtual capability of some offerings was also improved in this time frame through developments like that of Adelaide Bank's 24 hours home loan approval process and the online confirmation of term deposits through NAB and finally online application and activation of account aggregation introduced by Commonwealth Bank and Westpac#. While earlier capability across the eleven services on offer was limited, by December 2001 all but two Banks had some online application capability with 41% offering a semi virtual access (i.e. on line purchase)

The most recent facilities to be added were the BPay view presentment service applications and access (which Commonwealth Bank has recently introduced) as well as new sophisticated research facilities to support the application and access of online financial services and investment products.

Macquarie Bank earlier offered aggregation (Sept 2000) but later withdrew the service

Virtual Banking Application Lifecycle Stages:



Source: MISC (Market Intelligence Strategy Centre) Special Online Banking Activity Working Paper 2002/ MISC Internet U&A Survey

MISC says that essentially the Banks have adopted two models of virtual Banking development application. One approach is to undertake a micro site specialist positioning in which the applicant is directed to specialist product sites eg Home loans like the policy adopted by the Commonwealth Bank. The other approach is to adopt a more generalist approach adapted by most others where the primary site is the single source.

MISC says that there are three stages of online virtual Banking experience and in just the past 18 months all but three Banks have now provided some semi-virtual experience across selected services i.e. Stage (ii). This stage of virtual Banking ensures that more than eleven services can be automatically accessed with just a computer and a phone. MISC says that its research shows five services of the eleven can now be automatically accessed in some Stage (ii) virtual form. Such a capability is more evident for service offerings including Insurance, Managed Funds and Super, Share Broking and Account aggregation. In these instances branch personnel are still involved but more in a delivery sense.

In some cases even physical presence can be almost excluded. In Transaction Accounts, Westpac Bank can provide virtual acceptance and activation for deposits (but not withdrawals). With home loans you don't have to leave your chair for Adelaide Bank who will now provide "in principle" approval by email advice and even processing with mailed, signed documentation. In term deposits

Commonwealth Bank even allows lodgement by means of BPay transfer using its Internet Banking Facility while Personal Loans can be fully processed via mail return to ANZ

Stage (iii) Ultimate Virtual Application /Delivery experience:

The still elusive ultimate virtual world is some time off says MISC. Presently Commonwealth Bank, BankWest, Suncorp Metway and NAB all provide online application and fulfilment (i.e. immediate cover) for insurance products, (Suncorp Metway is for Home and Motor) while both Commonwealth Bank and Westpac are providing a virtual aggregation service which uses the online Banking facility to allow complete automation. The recent development of credit card processing was made even more Virtual by ANZ with the launch of its straight through application offering and real time OK.

Online Product Offering

As at March 2002, Banks on the road to developing a greater level of vertical application and purchase experience took more significant steps in the process. In home loans while most settlements still require a physical presence the process of full automation is enhanced by several developments like the Westpac tracking facilities or the Adelaide Bank mailed out application copy for signing. Fast disappearing are the days when consumers had to wait for credit card applications to be approved. Some online application sites like those for NAB allow 24 hour approval to those with an email address and details are mailed out within a few days.

In Internet Banking, the initiatives of the Commonwealth Bank include expansion of application access through Ezy Bank and the common password application processes of AMP (allows one password for several service applications). In the most mature of online application services i.e. Personal Loans and Credit Cards there is little to differentiate each Bank except the speed of virtual processing and the recent introduction of ANZ Banks real time credit card decision making. For Transaction accounts full activation after online application is available for some deposit products.

The shortest turnaround with email confirmation is the NAB's facility for Credit Cards which boasts 24 hours with plans to half that in the coming months. Personal loans can be obtained with email receipt and acknowledgement from both Suncorp and Westpac while in Insurance products, Commonwealth Bank and ANZ will provide micro site access and immediate cover. Investment products have sought to expand the application process and practice by development of interactive personal product selectors



MISC Research Background

The MISC research group, who co ordinate the pooling of Internet Banking data for Australia's major and regional Banks, released "qualitative research results" from its Working Paper of online applications Banking activity in Australia. These results pre-empt the first statistical collection of online application and delivery activity by members of the Internet Banking Pool. This new data set is being added to the regular collection of Internet Banking activity statistics managed by the group. The extended co operative statistical collection will finally reveal the true level of virtual application and purchase activity for Internet Banking in Australia. This is seen by many in the industry as the next phase in internet Banking development i.e. the first being transaction capability, the next is new service application and delivery using the internet and associated technologies (eg Phone) and finally a complete virtual purchase environment. The expected results will show how successful Australian Banks are in adopting Online "Best Practice" in their ongoing efforts to enhance shareholder value. The results are eagerly awaited by the Banks to see if Australians can be persuaded to fully embrace a virtual Banking option i.e. enquire and commit to a service online. To date in the absence of any reliable statistics, overseas experience has guided many. This mainly US based research has dangerously led many to consider that the US experience to date might represent the domestic Australian potential. US research shows that:

- *as many as 3% of US Home loans might be potentially completed on line.*
- *as many as 10% of US credit cards might be virtually purchased*
- *as many as 2% of personal loans might be the potential for Australian experience*

For further information on this unique service please contact the MISC Marketing Department.

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