



The Asian Banker Gilboa Report: Function-Packed Products Overtake Competition

This race knows no track or speed limit; only the pulse of the customer and anticipating demand before someone else does.

E-banks pedal to the metal with product functionalities that expand and transform to reflect customer sophistication and demand. The Gilboa Report clocks the winners with its latest findings.

This quarter's retail e-banking rankings provide dramatic illustration of the low barriers to entry on the Internet. Overtaking competitors from scratch by the number of bank branches, for example, is a slow and expensive process. Overtaking competitors online is much easier: in Hong Kong, neither Shanghai Commercial Bank nor Wing Lung Bank even had online banking products at the time of our August survey. In this update, Shanghai Commercial Bank comes from nowhere to claim the top spot in our retail rankings with 28 separate functions. Wing Lung Bank's new NET Banking product also appears here for the first time, entering the ranks at fourth place with 22 functions.

And this quarter's winner? In the last survey, the 22 functions of Overseas Union Bank's (OUB) e-banking product were enough to place it comfortably in first place. This time, OUB measures up to only 82 percent of the functionality of top-ranked Shanghai Commercial's product, i-banking.

While the rankings allow us to identify outstanding banks, looking at the data collectively reveals a picture of the ...typical, retail product. The average number of functions for all products is 13.6, fairly evenly distributed (median 13) over a range of four to 28 functions. Discounting the most basic products and focusing only on products with more than ten functions raises the average to 16.5 and median to 16.

However, there is a great deal of heterogeneity in these 13 average functions; very few functions appear in all or even most products across the board.

Besides the reporting of account balances (our minimum requirement to be included in the tables), the only

function that enjoys anything near prevalence is that of fund transfer between the customer's own chequing and savings accounts. Own account fund transfer is present in 94 percent of the products. The Taiwanese government currently forbids Internet fund transfers. If this were not so, the functionality would be universal.

Bill payment is the next most popular function, noted in 86 percent of products, followed by transaction records reporting in 76 percent. Apart from fund transfers to third party accounts (in 69 percent), all other functions are present in less than two thirds of the products.

In addition to these five most prevalent functions, which appear in more than two thirds of the products, another five functions are found in more than half the products. These are: ordering account statements (63 percent), ordering cheque books and viewing credit card balances (61 percent), viewing loan balances (59 percent) and transferring funds to credit card balances (53 percent). All other functions are present in fewer than half of the products.

It would appear that our ...typical, product consists of the following five functions:

- Reporting chequing and savings account balances
- Fund transfers between own chequing and savings accounts
- Fund transfers to third party accounts
- Bill payments
- Viewing transaction records

More than half of the products would also have these five functions:

- Ordering account statements
- Ordering cheque books
- Viewing credit card balances

- Viewing loan balances
- Transferring funds to credit card balances (53 percent)

There are five other heterogeneous functions in addition, offered by less than half of online banking products.

This information is about retail online banking as it exists today, but we can also discern developing trends by examining the data over time.

Fusion Banking

One such trend is the increasing fusion of banking and investing. In the ancient days of banking, say ten years ago, banking and share trading were entirely separate experiences performed by entirely separate entities. Banks and customers are coming to view both activities as merely separate ends of the same monetary spectrum. In response, retail-banking products are morphing into online share trading products as well.

One of the functions considered in our rankings is Access to Share Trading Product, which covers the following: electronic payment for shares, IPO applications, share trading account balance reporting or reporting of securities/unit trust portfolios. In our current update, access functions are still found in only a minority of products - 17 out of 51, or 33 percent. Nevertheless, the trend is unmistakable.

Three out of the four (75 percent) new products introduced since last quarter offers some kind of share trading access function. Our 47 existing products saw functionality enhancements across the spectrum, but the most frequently added feature - added to five of the existing 47 - was some form of share trading account access.

One illustration of this unique

convergence is HSBC's brand new product, online@hsbc. While logged on to this banking (not share trading) product, customers have access to real time stock quotes and market information.

At present, the Gilboa Report classifies online share trading and online banking into two separate categories. This may change with current trends.

While an examination of online retail banking products illustrates a convergence with share trading, a look at the online share trading products themselves reveals another trend: the increasing sophistication of investors, and that of the products that satisfy these investors.

Gone are the days when investment meant a long-term fixed deposit. Share trading used to interest only the wealthy, but today, no newscast is complete without a rundown of the financial markets. As investing becomes more of a mass-market phenomenon and as mass market investors become more sophisticated, they will demand greater choice from their online share trading products.

One way to increase choice is to provide access to different markets. For most products, online share trading refers to local markets only. However, this is beginning to change.

Singapore's Keppel TatLee Bank recently added online trading in (Kuala Lumpur Stock Exchange-listed) Malaysian stocks. Dao Heng Bank in Hong Kong has linked up with non-bank online broker marketrade.com to offer its customers online trading in the enormously capitalised and highly liquid New York Stock Exchange and NASDAQ markets. POEMS, a Singapore based non-bank online broker, already offers online trading on three regional exchanges - Singapore, Kuala Lumpur and Hong Kong.

Examining offline products shows us the shape of the future for online trading. Customers of United Overseas Bank in Singapore and users of HSBC's Hexagon can buy shares (although not online in real time) in 14 markets spanning the globe.

While stocks are by now considered commonplace, bonds remain somewhat ...exotic. Yet, we are already seeing the emergence of bond trading products for the retail market. For example, individual investors can log on to Bank of New Zealand's Securities Trading product or

the bank's separate BNZ Bond Direct to buy and sell a wide variety of government and corporate bonds in a range of grades.

Another way to satisfy sophisticated investors is with new tools such as the search functions of finatiQ and ANZ E*Trade. Choosing a unit trust can be as complex as choosing individual stocks. Although the online investor can usually find company reports and analyst recommendations, there are far fewer tools devoted to investments.

Customers of finatiQ can conduct searches on unit trusts based on various criteria and then sort these by performance. They can also track funds through fund watch-lists, and go ...shopping, for funds using the same grocery-cart interface seen on e-commerce websites such as Amazon.com. The search function of ANZ E*Trade is another powerful tool for investors, allowing them to search for shares based on criteria such as price earnings ratio or earnings growth rate.

The average investor is no longer afraid to jump into new markets and new investment products, and shoppers are looking for powerful tools to assist in the selection of investment options. Online share trading products are catching up to match the sophistication of their customers.

New Mobile Phone Banking Category

With this update, the Gilboa Report has added coverage of an entirely new product category: mobile phone banking.

We detailed only products that, at minimum, allowed customers to check their account balances. This means that alert services and the like were not included. The 20 products in our database possess an average (and median) functionality of seven in a range of two to 12 functions.

Bank of East Asia's Mobile Phone Cyberbanking clinched the top spot with its 12 functions, followed closely by Wing Hang Bank's Mobile Phone Banking and OUB's MobileNet which both tied for second with 11 functions each.

After chequing and savings account balance reporting, the next most popular function (present in 86 percent of products) is fund transfers between own accounts. This is broadly comparable to the 94 percent of Internet banking products with this feature. Another form

of fund transfer - bill payment - is the third most prevalent function, but is present in only half of the products. This is in stark contrast to Internet banking, where 86 percent of products offer bill payment.

Half the products also offer credit card balance reporting, but all other remaining features are in only one fourth or fewer products. The one area where mobile phone banking is more robust than online banking is in share trading. A full 35 percent of products reports share trading account balances and no less than 30 percent allows actual trading of shares.

Only 10 percent of products allow viewing of transaction records although this feature is in over 75 percent of Internet banking products. Just four products (or 20 percent) of the 20 mobile phone banking products allow fund transfers to third party accounts, as opposed to two thirds on the Internet. Only five products allow fund transfers to credit cards and only one allows placement of fixed deposit as compared to 52 percent and 48 percent for Internet banking, respectively.

Mobile banking products clearly have some catching up to do to reach the functionality of online banking products, but they are more advanced in terms of converging banking and share trading functions into a single product.

In the course of updating product functionality tables for this quarter, we found many products with new features "in development" or "coming soon". The e-banking avalanche is in full flow, and future updates will see our tables increasingly filled with new products and enhanced functionalities, and we look forward to additional reports on these developments.

The Asian Banker Gilboa Report is Asian Banker Journal's quarterly survey of e-banking in South-east Asia, South Asia and Oceania. The report ranks products based on the number of distinct features they offer. Collating information from many different products into a single database and comparing the data over time provides a picture of the state of e-banking today and tracks trends of the future.