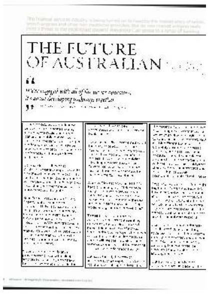

InFinance
01-Dec-2011
Page: 8
General News
Market: National
Circulation: 16806
Type: Australian Magazines Business
Size: 779.23 sq.cms
Bi monthly

THE FUTURE OF AUSTRALIAN *banking*

"We're engaged with all of the newer operators, it's about developing pathways together."

SAM PLOWMAN, executive general manager of direct banking, NAB

Supermarkets providing financial services, search engines issuing currency, the decline of internet banking as mobile banking comes to the fore: the sands are shifting in the financial services industry with new market entrants, new consumer preferences and new products and services.

So what does it all mean for Australasia's banks? Experts say the way these trends will play out in the Australian and New Zealand markets will be very different to the way they have changed other financial services markets around the globe.

Sean Turnell, associate professor, Department of Economics, Macquarie University, says despite the push by non-bank lenders into the mainstream banking sphere, he's skeptical about the ability of groups such as Woolworths to gain real traction in the financial services market. Woolworths has just entered the insurance market, offering life and pet insurance products. It also offers a credit card.

"I don't see non-bank brands providing broad-based banking services because they don't have the extensive branch networks the major banks have to deliver what consumers need from a full-service bank," he says.

Turnell is equally unconcerned about the entry of telecommunications businesses into the banking market. "Telcos have had a profound effect in areas like Africa where building a banking network is expensive. Players like [telco] Safari.com are having a huge impact because they make payments more efficient."

Andrew Dickinson SA Fin, KPMG's head of banking says "telcos have really taken over in places where there is no landline like Africa and Turkey. But that's not really the case here where banks have an existing model and good market coverage."

Turnell agrees the difference between the Australasian banking market and the developing world means telcos pose less of a threat here. "In the future it's possible telcos will be the face of banking because people will use their mobile phones to make payments – but the bank will still own the relationship," he says.

But, says Turnell, the entry of providers such as PayPal and Google into the payments space does have the potential to disrupt the market. "I can imagine a system evolving where you will buy 'Google dollars' to spend around the internet. PayPal is a bit different because it's still ultimately based on a domestic currency, but it's still significant because it indicates people are prepared to trust a non-bank entity with their money. This could greatly change international transactions because it puts Google in the position of the central bank," he says.

Says Andrew Dickinson: "unlike the big banks, Google and PayPal don't have a very extensive investment in branch networks to protect. This means they will stimulate the market and connect advertisers with the payment process to monetise their brands. It will be interesting to see how the incumbents respond."

Dickinson sees a day in the not-too-distant future when Google's advertisers can link their customers directly to a payment system, which also links to a mobile network, delivering true convergence between online retailers, telcos and payment systems.

"But there really needs to be formal standards in place for the whole industry because everyone seems to be going their own way and there's no agreement about who owns the customer. There needs to be a standardised technology to get a critical mass up so that a single payment model can be used across mobile devices and banks. This could address the challenge of achieving widespread consumer adoption."

From a credit perspective, Vipin Kalra, country manager for Visa Australia, says commensurate with the rise of new payment options for consumers, "our love affair with cash is dying. But at the same time, there has been a huge rise in demand for debit cards over the past eight years."

According to data from the Reserve Bank of Australia, since 2003 debit cards have gone from 30% total market share in the card market, to 39% of total card market share. Over the same period, the use of credit cards has gone from a 70% to a 51% market share.

"This doesn't mean the use of credit is diminishing, it just means the use of credit is growing at a slower pace than debit; it's a sign of a mature market. This trend is likely to continue for the next three to five years and we expect a 50:50 split eventually between debit and credit cards. Debit isn't cannibalising the use of credit cards, but it is replacing the use of cash. This is good for electronic payments more broadly because it makes payments more efficient. And financial institutions and card schemes have evolved in line with this trend."

Kalra says the emergence of contactless cards and devices is also fundamentally altering the market. "This is evolving into contactless mobile devices and we will wave our phone in front of a terminal to make a payment. Digital wallets are going to replace physical wallets and will contain payment information, personal information and our driver's license. Financial institutions will evolve to be more digital, more online and more mobile-centric."

He believes we'll start to see new payment models such as person-to-person payments to allow people to split restaurant bills more easily, with transfer of funds happening in real time, rather than over a number of days. "The ability to transfer funds from any device, to whomever you want, from anywhere in the world is the future of the payments industry," Kalra says.

Interestingly, Turnell says the recent financial crisis has meant a reprieve for retail bank networks. "Before the crisis we were seeing a shrinking branch network and slackening of service. But turbulence in the wholesale market has turned banks' attention to retail customers. Plus, people have been pulling their funds out of more speculative investments and giving these funds to major banks."

He thinks the memory of the crisis will remain in the minds of bank customers for the next 20 years, which means branch networks will continue to be important to banks.

"But the physical look of branches will be different. Tellers used to be separated from customers with glass security screens and customers were told not to lean across the counter. Now, branches look like Starbucks and the teller sits at a console or lounge in a big, comfortable chair and branches have the equivalent of a concierge service. This reflects the lesson of the financial crisis - depositors are important and being friendly means attracting funds at a lower interest rate."

Turnell also thinks increasingly, banks will use different brands for different markets. He says "Westpac uses this strategy. We've seen it re-introduce the Bank of Melbourne brand in Victoria and re-brand some of its St George banks to Bank of Melbourne."

"But overall, the dominance of the big four banks here means the Australian market is likely to have a very different future to other markets like the US where new retail entrants like Walmart are going to change the face of banking over there."

Sam Plowman, executive general manager of direct banking at NAB, says shifting consumer behaviour and new technology is changing the business of banking. "But the pillars of the service we provide will still be there: we will still have branches and we will still have people helping customers. Our digital and physical assets will complement each other to allow consumers to bank wherever and whenever they want."

Plowman says NAB's data shows 60% of customers use the internet to do their banking, with close to two million active internet customers. They are using the internet to do their banking on a more frequent, and increasingly wireless, basis, using mobile phones and tablets. "Over the last 12 months the use of our mobile app has gone through the roof," he adds, explaining that 20% of all customer account log ins are now from a mobile device.

To capitalise on this trend, NAB is improving user experience. "It's not unattractive at the moment, but we're focusing on making the look and feel of our digital offering smarter, simpler and faster and adding functionality and content," Plowman explains.

In terms of the potential threat new market entrants pose, Plowman says newer operators will find it tough competing against existing banks. "It's difficult playing in the banking industry. It's not easy packaging and providing retail financial products; the Australian market is quite difficult to operate within."

The fact there are only four major retail banks in Australia, strong consumer preference for these brands and the interconnected nature of the financial services generally, means good relationships between the new and old guard are vital for the overall health of the Australian banking sector. Plus savvy established players will recognise building good relationships with the new players is a significant business opportunity.

'"We're engaged with all of the newer operators, it's about developing pathways together," Plowman says. ■