

Internet Banking in ANZ Bank: Project Tiger's Leap Toward Scale

Asia/Pacific IT Benchmarking Advisory Service

CASE STUDY

#FIN212008

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FINANCIAL INSIGHTS OPINION

This Financial Insights case study revisits ANZ Bank two years after it scaled up its Internet banking proposition and will be instructive for other banks that seek to develop their own online strategies. Key points discussed include:

- ANZ Bank's Internet banking initiatives were run amidst a steady growth of Internet banking in Australia. Australia's Internet banking users has now exceeded half of the nation's banking market, with an estimated 30 million online banking accounts.
- ANZ Bank's Project Tiger was unique because of the bank's specialist unit model, which meant several business stakeholders defining business and customer requirements. This required disciplined project scoping. Also, from the outset, the primary principle was that the Internet banking application would be a platform for ANZ Bank's operations across the region.
- There are many valid motivations for pursuing enhancements to the Internet banking channel. Core to these objectives should be improvement in the customer experience. The right customer experience framework will create the virtuous dynamics of higher activity rates, improved product take-ups, higher customer loyalty, and lower cost-to-serve.
- The most successful Internet banking initiatives are contextualized to the bank's overall channel strategy. This would allow the banking organization to map out effective multichannel integration, better articulation of channel-specific customer strategies, and a more insightful understanding of return on investments (ROIs) of channel investments.
- New metrics will be used by banks as they look at the online banking channel — more traditional metrics around activity rates, cross-product holdings, cost-to-serve, and also new customer-centric measures around loyalty, as well as metrics to identify advocates and dissenters.

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IN THIS REPORT

Continuing the series of reports that looks at the most notable technology initiatives of banks in the region, this Financial Insights case study revisits ANZ Bank two years after the implementation of its Internet banking system for consumer banking. This report discusses the key lessons learned by the bank in scaling up its Internet banking proposition and will be instructive for other banks that seek to develop their own online strategies.

This report follows a series of interviews undertaken by Financial Insights Asia/Pacific IT Benchmarking with senior executives of banks in Australia, including ANZ Bank. Benchmark data was derived from these interviews as well as from publicly available information.

About ANZ Bank

ANZ Bank is the third largest Australian bank, with assets of A\$392.6 billion as of end-2007 (US\$1 = A\$1.05 as of April 2008). Among the country's Four Pillar banks — composed of National Australia Bank (NAB), Commonwealth Bank of Australia (CommBank), ANZ Bank, and Westpac Banking Corporation (Westpac), the bank is the most aggressive in expanding operations to other geographies. The bank has operations in 30 other countries — New Zealand (where it is the number one bank), the rest of Asia/Pacific (ROAP), Europe, including the United Kingdom, the United States, as well as a technology and operations center in Bangalore, India.

Across its global operations, the bank has more than six million personal banking, private banking, small business, corporate, institutional, and asset finance customers.

Brief Description of the Solution

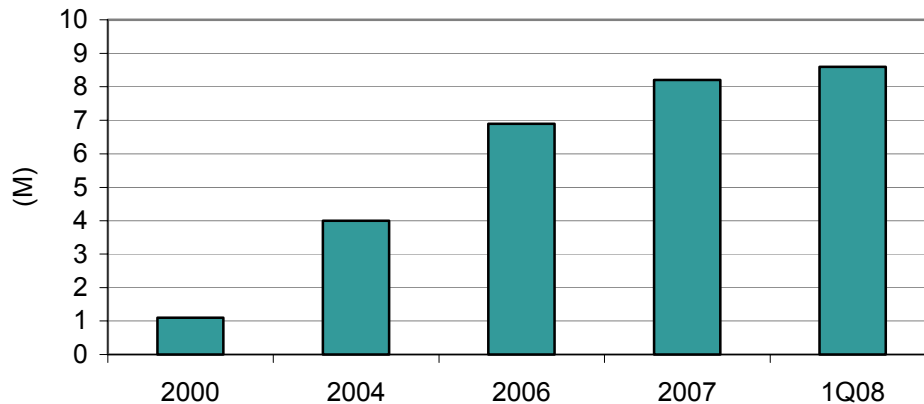
ANZ Bank launched Project Tiger in 2004 to upgrade the bank's Internet banking system for consumer banking. The bank switched from a first-generation Internet banking solution, provided by Edify, to an Infosys Finacle platform. The Finacle product is also envisioned as the Internet banking platform for the bank's regional operations.

SITUATION OVERVIEW

Australia was one of the first markets in the region to take on Internet banking. From 1.1 million in 2000, the country's Internet banking base has grown to an estimated 8.6 million in early-2008 (see Figure 1). Australia's Internet banking take-up has now exceeded half of the nation's banking market, with an estimated 30 million online banking accounts.

FIGURE 1

Internet Banking Users in Australia — 2000, 2004, 2006, 2007, and 1Q08



Source: Financial Insights, 2008

The following trends have contributed to the continued growth of Internet banking in Australia:

- Banks saw an upsurge in online account sign-ups in mid-2007 before lowered caps for superannuation accounts were introduced. Banks saw the highest increase in traffic in the lead-up to the July 2007 cutoff, with customers expanding balances in accounts and increasing transactions between online accounts.
- The highest growth in Internet banking sign-ups has recently come from older customer segments. In the past three years, annual growth of online banking sign-ups from customers aged 50 years and above was higher than 20%. This is attributed to an increase in customer education as well as greater confidence in the security solutions used by banks.
- Activities most frequently undertaken online by Australian Internet banking users are, as with other markets, account balance checking and fund transfers between same-owner accounts. It is estimated that 80% of online banking users use the online banking channel to pay bills — one of the highest percentages we have seen in key online banking markets worldwide. Much of the growth in online bill payments comes from customers doing more BPAY transactions through the Internet (BPAY is a bill payment interchange owned by a consortium of Australian banks.)
- Efforts by banks to improve Internet banking functionalities have impacted growth in sign-ups and online banking activity (discussed in the following sections). These also include improvements to online banking security.

THE APPROACH

The Journey to Project Tiger

ANZ started its online banking journey in the late-1990s when the bank, along with other banks, was still trying to make sense of the promise of the Internet. ANZ Bank, along with Commonwealth Bank of Australia (first in the market with earlier versions of its NetBank offering) and Westpac were the pioneers in Australia's Internet banking market.

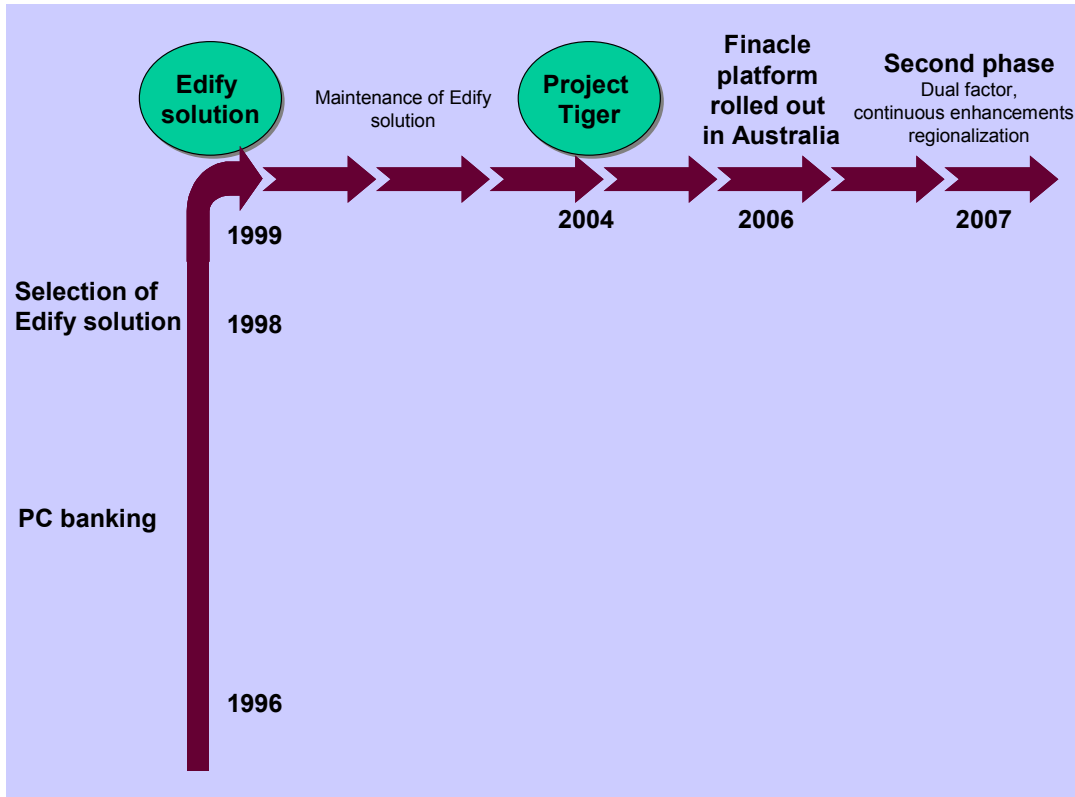
ANZ Bank had a Personal Computer Banking (PC Banking) project from the mid- to late-1990s, which essentially was a test bed for the bank's Web proposition. In 1998, as Internet access and users surged, the bank selected an Internet banking solution (primarily for consumer banking) offered by Edify. The bank ran the Edify solution through the growth stages of its online banking offering until 2004 when it was felt that the Edify solution had already come close to its end of life. Project Tiger was launched in 2004 to decommission Edify and implement a new Internet banking offering that would support the next stages of growth for ANZ Bank's online channel. Figure 2 illustrates ANZ Bank's Internet banking journey.

Leadership of the online channel has also evolved through time. Up to about 2000, the leadership was held by the Emerging Channels unit, which looked at "modern" channels such as interactive voice-response (IVR), operator-assisted banking, and PC banking — with the latter evolving to become Internet banking. From 2000 to about 2004, ANZ Bank created a separate business unit, ANZ.com, which set out to originate customers and sell products through the online channel. ANZ.com later on morphed into a more functional area called personal ecommerce.

From the outset, Project Tiger envisioned the Finacle solution as groupwide infrastructure, seeing it as a platform for Internet banking offerings not only in Australia and New Zealand, but also across ANZ Bank's units across Asia. As is necessary, IT management of the online channel is under Central IT, which looks after the operation of the solution as well as software development and maintenance. Central IT deals with the various business units (ANZ operates under a specialist business unit model) as they come up with online propositions for their businesses. These units cover mortgages, consumer finance, credit cards, investments and insurance, among others. This structure is thus able to maintain the single platform that is customized on a needs basis. The various business units and geographies have to go through rigorous justification for requested customizations.

FIGURE 2

The Journey to Project Tiger



Source: Financial Insights, 2008

Business Drivers

John Harries, managing director for consumer finance of ANZ Bank in Australia, looks back at the key motivations of the bank's Internet banking strategy.

Harries stated that the first motivation was around customer experience, acknowledging especially that a good online banking system would provide an easy and convenient way for customers to interact with the bank. This focus on customer experience was seen in the design of the system itself — the key consideration was whether the system was convenient in terms of accessibility, response, and availability. Customer interfaces had to be simple and easy to use (in that users intuitively understood what needed to be done). Apart from these, the system had to provide good "functionalities from day one." This meant that the system put forward the best content (information related to customer accounts and to other available products and services), tools (value-added capabilities as personal calculators), and

transaction capabilities. An important aspect was security, and here, consideration had to be made both in terms of the confidence that people have in the security of the system, and the trade-offs that users would need to make in order to be secure.

The role of the online channel was contextualized to ANZ Bank's overall channel strategy, especially at the start of Project Tiger. At that time, ANZ Bank, along with other Australian banks, was undertaking a recalibration of channel strategies.

We note here that it was in Australia where the trend of branch closures across the region started. In the late 1990s, Australian banks, saddled with high branch operating costs and low utilization levels, decided to close hundreds of branches. This trend lasted for several years, eventually spilling over to other Asia/Pacific markets. By 2002, however, Australian banks realized that they may have abandoned the branch channel too much and too quickly. Branch closures resulted in declining customer satisfaction and considerable customer churn. ANZ Bank was the first of Australian banks to launch a large-scale branch opening initiative. The Web channel received attention through Project Tiger.

The online channel was seen not only as a low-cost channel but also a channel that enhanced the availability of the bank to customers, responded to self-service preferences of customers, and extended the bank's customer experience motivations.

To the bank, the Internet banking project also provided an opportunity for customer and account integration. Harries remarked, "We had multiple legacy systems that have been built up through time, and the Internet banking system provided an opportunity to connect to a number of different systems such as credit cards, mortgages, deposits, and others. So it actually provided an opportunity to see everything through one portal." In the end, the new Internet banking solution allowed the bank to streamline its technology architecture.

Product sales was also an important business driver, already seen out of the ANZ.com charter, but also coming from the belief that "active" Internet banking users build deeper relationships with the bank not only through frequent transactions and interactions, but also through higher product holdings. Harries commented that "there are certainly quite aggressive differences between the active and nonactive customers, in that, active Internet banking users have 20% higher cross-holdings."

Solution Description

ANZ Bank launched Project Tiger in 2004 to upgrade the bank's retail Internet banking system to an Infosys Finacle platform.

Since the implementation of the Finacle system in 2006, Infosys has come up with higher versions of the Internet banking product, the features and functionalities of which are also being integrated into the ANZ Bank installation. The bank continues to introduce new features into the current system, particularly those related to security and integration with the bank's new cash management system for institutional and corporate clients.

Selecting the Solution

As Edify came close to end-of-life, the bank decided that it had to be replaced by a more scalable and function-rich solution. Project Tiger was envisioned to decommission Edify and at the same time implement a new system, identified early on to ultimately be the online platform not only for the Australian operations, but also for the rest of the region. Brian Hartzler, then the group head of retail banking in Australia (now group managing director) was the key stakeholder and chaired Project Tiger.

We also point out that there were discussions on whether the new solution was to be developed in-house — which ANZ acknowledged had been carried out with some degree of success by some of its competitors — or to buy and customize a package solution. The decision was then made to acquire an existing vendor offering, that was, according to Harries, "close enough to the Edify solution on a like-for-like basis and then customize from there." The bank went through a fairly thorough process of scoping and business requirement definition, progressing steadily to a request for proposal (RFP), and then narrowing potential vendors down through an elaborate selection methodology. The decision to go for the Infosys Finacle platform was made in late-2004.

IT teams formed some of the core members of Hartzler's team. The selection and implementation process necessitated a project director, who was, in Harries' terms, "the glue between business, IT, and the vendor." The role of the project director was crucial, not only because IT and business had to come to an understanding of what was required of the Internet banking solution, but also because ANZ Bank's specialist unit model meant that there were 16 business unit stakeholders that defined business and customer requirements.

In especially selecting the vendors to be shortlisted, the primary principle was that the Internet banking application would be a group application. Thus, the system had to talk to a range of core banking applications and core transaction monitoring systems. This was an architectural decision made early, and a decision that was adhered to. The selection criteria revolved around considerations for the following:

- **Functionality.** Functionalities of the system had to be as close as possible (or "like-for-like") to the Edify system. From the outset, therefore, another key requirement for Project Tiger was struck — migration to the new system would not impact the customer's online experience. More importantly, the solution's functionalities set needed to be as close as possible to the bank's "thoughts going forward" — functionalities defined by the business and technology teams. The most crucial requirements revolved more around small business and business banking multiple-payment functionalities, multiaccess capabilities, and security models.
- **Adaptability.** This meant the ability to change functionalities depending on changing business requirements.
- **Operating cost.** Considerations were made regarding cost of implementation, rollout, and maintenance.
- **Scalability.** The system had to scale up to be a platform for ANZ's growing Australian business and as a platform for the entire region. The Edify solution ably supported ANZ's businesses when there were a few hundred users, but had issues when it reached close to three million at the start of Project Tiger.
- **Time to market.** The system had to be delivered on time and at cost. The project team had made delivery commitments to the board and had made public statements of a new solution.

The bank brought together work groups that went through the requirements and their recommendations came through to the steering committee chaired by Hartzler. Harries admitted that the work groups "looked at all vendors across all five dimensions, but a lot of them were ruled out because of cost and time to market considerations." Of course, the shortlist went through the IT architecture group. Finally, and especially because this was a significant project for the bank, vendor selection went all the way to the bank's board of directors.

Implementing the Solution

The project implementation went through two phases. The focus in the first phase was like-for-like migration. This meant that the functionalities of the new system had to mirror those of the existing Edify solution. The implementation took two years, and in this timeframe, new business requirements were defined time and again — this was expected because the bank aggressively pursued growth opportunities. This meant that new functionalities and capabilities introduced in those intervening two years were built twice. Harries remarked, "you had to build it in the old and then in the new system."

The bank is now impressed at the extent of discipline and governance that was seen out of the Internet banking project; requirements that were "sponsored by business units had to have a strong case."

Harries recalls that when customers were migrated over to the new system, some of them were asking when the system cutover would take place. "That was a success factor; we moved people without them knowing it. That was our primary driver. We did not want the customer to see an impact." The project had a total of 12 iterative migrations comprising 12 weekends, with up to three million registered customers. For the IT team, this meant that they had to maintain the availability and reliability of two systems. The most difficult customer segments were migrated last, specifically those from private banking — "most sensitive about everything, and rightly so"; and small business and business banking customers — "while they were small in number of customers, the data was substantial in terms of salary and multipayment records."

"Look and feel" was also a key element for ANZ Bank, especially that customer convenience was an articulated objective from the get-go. Harries recalled, "Look and feel was determined in-house. We had our own designer group because we were looking at like-for-like, and we gave them a lot of guidance on what our existing solution was. Our own design group and Infosys worked together to come up with the end solution."

The project's second phase involved building new business banking functionalities around multiaccess and multipayment capabilities.

In 2006, after fully decommissioning Edify and after migration to the new system was complete, the bank stated that the project budget, at about A\$60 million, was on track. The project was also sufficiently on time. This was, according to observers, commendable, given higher budgets and longer timelines spent by peer banks in the launch of new Internet banking capabilities.

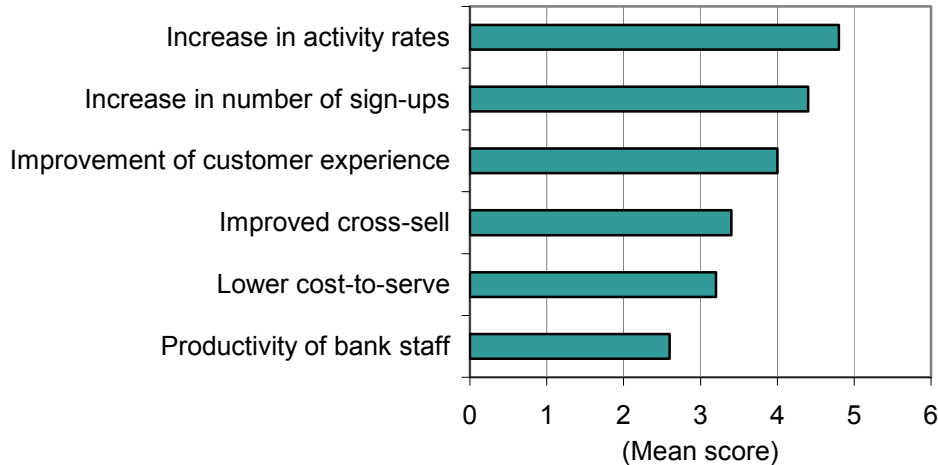
Business Value

Figure 3 shows the responses of Australian banks when we asked them about the most important business benefits for assessing the success of Internet banking projects. These were also reflected in Project Tiger's experience.

FIGURE 3

Most Important Business Benefits of Internet Banking Projects

Q. On a scale of 1 (not important) to 5 (very important), how important are the following business benefits from your bank's Internet banking projects?



n (stakeholders of Internet banking projects of Australian banks) = 5

Source: Financial Insights, 2008

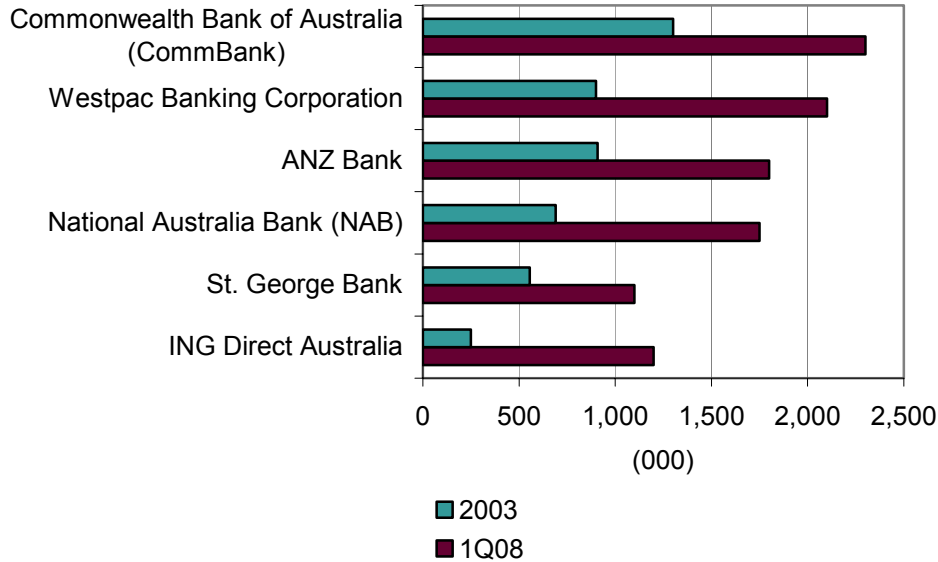
ANZ Bank claims that the bank has been increasing active users by 250,000 per year since the launch of Project Tiger, setting, according to Harries, "the ambitious target of doubling that number by 2009." Figure 4 shows metrics for Internet banking "active users" in major Australian banks, showing that like these banks, ANZ Bank has grown active customer segments.

For this report, "active Internet banking customers" are defined as registered users who have undertaken at least one transaction in the past six months. This is the typical definition that Australian banks have used in our interviews, although we acknowledge that a stricter criterion of activity (such as one transaction in the past 90 days) are increasingly being used.

Several Asia/Pacific banks have attained activity rates higher than 30% with effective marketing initiatives and strategies to push transactions to the online channel, primarily through excellent Web site content and bill payment facilities (more on this in the following sections). Indonesia's benchmark is at a still low 8.2%, revealing how Indonesian bank customers are not fully participating in current Internet banking offerings and initiatives.

FIGURE 4

Active Internet Banking Users in Select Australian Banks, 2003 and 1Q08



Notes:

Estimates are from interviews and publicly available information.

"Active Internet banking users" are defined as registered users who have undertaken one transaction over the Internet banking channel in the past six months.

Source: Financial Insights, 2008

Furthermore, Harries cites three other dimensions under which the business value of ANZ's Internet banking offering can be assessed. First, consideration has to be made with regard to customer experience. Here, ANZ Bank could claim that its key objective for switching to the new system has been met. Independent ratings for functionality, and look and feel have won accolades for the bank's site. Surveys of users since the switch also indicate a steady rise in customer satisfaction.

Second, the implications to the bank's efficiency have to be considered. Obviously, the online banking channel provides a much-lower-cost alternative for undertaking transactions. Harries states that he holds "a business goal of reducing cost-to-serve by 10% in the next few years, measured by the total cost of running the business over total number of accounts." Taking out costs from expensive channels will impact overall costs. Furthermore, the increase in the total number accounts, already seen by ANZ Bank, will also impact cost-to-serve metrics.

Discussions with regard to the marketing benefits, the third dimension for assessment, have to be more nuanced. We note the following:

- We earlier cited that for ANZ Bank, product cross-holding metrics of active Internet banking users are ten to 20% higher than nonactive customers. Other Australian banks also report similar figures, although one bank reports a difference of more than 50%. The industry, however, needs to understand whether the difference is a cause or an effect. On one hand, do customers have a much wider array of products, and thus the appeal of Internet banking having one screen listing all accounts? On the other hand, is Internet banking a strong "hook" to users, that more the customers transact, the more they consolidate products into the institution?
- The effectiveness of cross-selling products depends on the products themselves. There are products that are not sold effectively online (such as mortgages), but there are those that are sold easily, such as insurance and cards. Here, ANZ Bank can cite the success of the launch of its Visa debit product, which had people not only going online and inquiring about the product, but actually applying for the product itself. More than 60% of applications were all done over the Web site. The bank exceeded expectations of the product and increased product sales four-fold in the first six months. Other Australian banks have also been reporting lower cost of rolling out new products, especially because of the growing willingness of customers to avail of products online.
- Overall, it is customer experience that Harries claims to be the major factor for an increase in product sales online. "If you get the customer experience framework and bank pieces right in terms of being able to process applications efficiently," cross-sell and upsell "will flow more naturally."

FUTURE OUTLOOK

We expect ANZ Bank to continue to roll out new functionalities in its Internet banking offering, resulting in a much-hoped-for increase in sign-ups and activity rates. Better cross-sell metrics are also expected, especially out of the bank's active Internet banking user base.

As was envisioned from the very beginning, the Finacle platform will be used as group infrastructure and will be deployed in the bank's retail Internet banking offerings across ANZ.

Watch Out for the Three Technology Initiatives

We believe that the three technology initiatives will be a key focus for Australian banks vis-à-vis their Internet banking strategies. We discuss these in this section:

- **Dual factor authentication usage will expand.** Incidences of fraud in the Internet banking channel continue to be reported time and again, although the extent of the losses and the vulnerabilities that allowed them remain vague. Banks will focus on securing the Internet banking channel, and spending on these technologies is expected to be strong moving forward. ANZ Bank has not rolled out a dual factor authentication program (although a dual factor system is planned for its Web-based offering for business banking), focusing instead on building robust back-end capabilities in fraud detection and vulnerability resolution. However, some banks — here, we cite all Four Pillar banks along with HSBC, Suncorp, and Bendigo Bank — have made headway in the adoption of dual factor authentication. We anticipate more prevalent use of dual factor authentication in the medium term. Banks will have to examine more thoroughly implications on sign-ups to Internet banking, additional costs for this supposedly lower-cost channel, customer convenience, and transaction frequency (see Financial Insights document, *Are Security Tokens Reducing Internet Banking Usage?*, Financial Insights #FIN209063, October 2007).
- **The advent of new Web-based offerings for business banking.** As activities to scale up online banking for retail customers continue, banks are also looking to enhance their Internet banking offerings for business/corporate customers. The focus here is a shift away from traditional, PC-based approach, toward offering cash management and payment capabilities for businesses over the Internet. ANZ Bank looks to roll out its Web-based cash management offering as efficiently as possible, following the sharp uptake of CommBank's CommBiz offering and St. George Bank's first-mover successes in this space. NAB will bring to market its own business banking solution in the near term. Westpac and Bankwest have launched similar services as well. Moving forward, we expect banks to bring to light their roadmaps for more sophisticated solutions that link up cash management, working capital management, trade, payments, investments, and treasury. This will not only touch on the important technology issues, but also bring together future business objectives and customer requirements. Currently, there is no single vendor that can offer a complete solution. However, with the pace of industry consolidation and the move by leading vendors to offer an integrated solution, the landscape could look quite different in a year or two.

We believe, however, that while platform integration is possible between retail Internet banking and these made-for-businesses, Web-based solutions, there will still be, at least in the medium term, a delineation between these two offerings, particularly in the aspects of strategic intent, marketing, and management.

- **Mobile banking proposition revisited.** Revealing the bank's drive to be a dominant player in consumer banking, ANZ Bank has launched two mobile banking offerings: an SMS banking capability that is primarily for informational bank interactions (checking account balances); and a more sophisticated "M-Banking" offering (developed by M-Com under partnership with Microsoft) that requires mobile users to download applications on their phones, and allowing transactions such as bill payments (BPay) and funds transfers. This follows the relative success of mobile banking in the New Zealand market. NAB and Bank of Queensland have also detailed mobile banking projects although other Four Pillar players such as CommBank and Westpac remain tentative. Whether mobile banking will take off in Australia remains to be seen. However, the launch of banking services over yet another channel pushes further the agenda for effective integration of channel capabilities, better articulation of channel-specific customer strategies, and a better understanding of return on investments of channel investments.

A lot of focus will also be given by banks in improving the customer experience over their online channels. These will involve improvements to the customer pages, especially focusing on intuitive use, interactivity, and the removal of clutter (to the extent of cutting pages and setting lower limits for the number of clicks). We note several new functionalities around chat, linkage to superannuation, as well as branch and ATM locator tools.

We also point out that competition from direct banks has continued. Competition for bank deposits and other banking products has of course been seen from Internet-only account offerings, particularly from ING Direct, the leading player in this space. It is estimated that since its launch in 1999, ING Direct has amassed a significant share of household deposits to become the country's sixth largest retail bank. Other players such as RaboPlus have gone into this space as well, with the "more traditional" banks launching Internet-only accounts for their customers. In a way, improvements made by the traditional players to current Internet banking offerings is a defensive move against the inroads made by the likes of ING Direct. They also, however, confront the direct banks' model head-on. Now, traditional banks can convincingly declare that their advantage is on a more complete customer experience — richer, more meaningful interactions across many channels, including the online channel.

Key Learnings

There are key learnings that ANZ Bank has seen out of Project Tiger, which will also be instructive to banks as they seek to enhance their online banking offerings. We cite some of these learnings in this section, along with points that other banks have raised in the course of our research:

- Customer experience has to be prioritized above everything else. It will be excellent customer service that will impact customer activity rates and other benefits such as higher product cross-holdings.
- The online banking proposition has to be crafted in the context of the bank's multichannel strategies. The online channel is meant to extend and complement the capabilities of other channels, especially the branch. Its capabilities have to be extended to other channels as well (branch, ATM, call center, mobile banking).
- It is important to complete an Internet banking project in as short a period of time as possible, especially because business units, responding to changing market opportunities, will continue to define new functionality requirements even amidst ongoing project implementation. ANZ Bank's intention to keep to like-for-like functionality meant that two systems had to be maintained at the same time, a task that might be too difficult to manage for any bank's support and development resources. We note that six Internet banking projects that we have looked at in the region have on average run for 14 months.
- New metrics have to be used by banks as they look at the online banking channel. These include not only more traditional metrics around activity rates, cross-product holdings, and cost-to-serve, but also new customer-centric measures around loyalty, as well as metrics to identify advocates and dissenters.
- A focus on increasing sign-ups (penetration rates) is an essential first step. This implies the effort to bring more sign-ups from the bank's non-online customer segment (here, sign-ups from older segments of the customer base are welcome), and ultimately, competing for (or grabbing) Internet banking users of other banks. However, banks have to realize that this is a short-term objective, especially for those in saturated markets, as they would in time reach the base of total banking customers in the market. Increasing activity rates — and having customers do more transactions and activities online — have to be run alongside the effort to get more sign-ups.

- The drivers of cross-sell in the online channel have to be understood. Banks will continue to thresh out whether higher product holdings is a cause or an effect of activity rates online. There is no easy answer, indicating the tricky nature of increasing bank loyalty. There are products that are not sold effectively online, but there are others that are sold easily. The push for cross-sell has to be a well-crafted effort that leaves nothing to chance.
- Banks need to look for opportunities to consolidate resources. ANZ Bank's push to have Internet banking as group infrastructure is an inspired decision, allowing the bank to maximize development and support resources, and also ensuring a coherent online banking strategy across different geographic operations.

ESSENTIAL GUIDANCE

Internet banking will continue to be a key initiative for banks in the Asia/Pacific region. In previous research, we cited growth potentials in India, Australia, Thailand, Indonesia, the Philippines, and China. Banks and vendors will be wise to keep to the following essential guidance points:

Actions for Financial Institutions

- There are many valid motivations for pursuing enhancements to the Internet banking channel, ranging from lower cost-to-serve to opportunities for product sales. Core to these objectives should be the improvement in the customer experience. The right customer experience framework will create the virtuous dynamics of higher activity rates, improved product take-ups, higher customer loyalty, and lower cost-to-serve.
- The most successful Internet banking initiatives are contextualized to the bank's overall channel strategy. This would allow the banking organization to map out effective multichannel integration (technology and platform integration, along with organizational integration), better articulation of channel-specific customer strategies, and a more insightful understanding of return on investments of channel investments.
- A focus on increasing sign-ups is an essential first step for banks. However, this should just be a short-term objective, especially for banks in saturated markets. The long-term goal should be to increase activity rates and activity frequency. The key activities undertaken online continue to be account balance checking, bill payments, and fund transfers. These capabilities should be the base capabilities on which other capabilities, tools, and differentiators can be built on top.

Actions for Vendors

- Internet banking offerings of vendors are expected to become more and more standard. However, key vendor differentiators such as capacity to scale, time to market, and operating cost will become more important.
- Banks will use new metrics as they look at the online banking channel. These include not only more traditional metrics around activity rates, cross-product holdings, and cost-to-serve, but also new customer-centric measures around loyalty, as well as metrics to identify advocates and dissenters. Vendors should be prepared to talk about how their solutions support these new metrics and key performance indicator (KPI) requirements.
- Alongside dual factor authentication, other measures to harden the Internet banking system will receive much attention from Internet banking project managers. Security for Internet banking is as much a loss-of-face issue as it is a loss-of-funds issue.
- The opportunity for more sophisticated Web-based solutions for businesses have emerged. These solutions link up cash management, working capital management, trade, payments, investments, and treasury. Vendors should be prepared to articulate their view on this opportunity, alongside their proposition for consumer banking-type Internet banking.

LEARN MORE

Related Research

- *Top 10 Strategic Banking Initiatives in Asia/Pacific for 2008: The Return of the Customer* (Financial Insights #FIN210337, January 2008)
- *Are Security Tokens Reducing Internet Banking Usage?* (Financial Insights #FIN209063, October 2007)
- *Australian Banks Are Shifting Gears: How Will Technology Spending Keep Pace?* (Financial Insights #FIN204750, January 2007)
- *Australian Banks Rethink Their Credit Card Propositions* (Financial Insights #FIN203982, October 2006)
- *Challengers Grab Home Loan Market Share in Asia* (Financial Insights #FIN203311, September 2006)

- *Internet Banking Powers Ahead in Asia/Pacific* (Financial Insights #FIN1649, August 2005)
- *Internet Banking Security: Dual-Factor Authentication Comes to Asia* (Financial Insights #FIN1636, August 2005)
- *Business Transformation at Commonwealth Bank of Australia: Why "Which New Bank" Is Working* (Financial Insights #FIN1619, July 2005)

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