

PERSPECTIVE

The Next Wave in Internet Banking



Internet, in the form we know it today, is about 20 years old. It has, in fact, seen a rebirth in what experts call Web 2.0. Banking on the Internet, has thrived for more than half of those years. Among the business models that rode the crest of dot coms, Internet banking was undoubtedly one of the few models that satisfied a genuine need that kept growing despite the slump of 2001. In those 10 years, Internet banking followed the traditional market cycle of morphing from fad to trend, becoming an indispensably integral part of life for many. This is true of not only the global upwardly mobile population, but also those who seek more control over their lives and time; and those encountering the limitations of traditional brick-and-mortar banking.

Analysts say, on an average, banks save about 45 cents every time they send an account statement electronically instead of by paper mail. A bank that sends monthly account statements by paper mail to 5 million customers would spend \$27 million more than if it sent electronic statements. Besides, the understated, yet biggest, benefit of Internet banking, as appreciated today, is annual savings of more than 10 million trees, touching our lives in yet one more amazing manner.

Another factor serving to drive the growth of Internet banking even harder is the retail boom - a path-breaking trend the industry is witnessing in recent years. By virtue of the availability of a robust financial ecosystem and modern technological advances in the industry, retail banking has gone past the bottleneck of primary hurdles such as quicker payments and settlements through financial supply chains that form the backbone of the retail industry.

This accrues to the fact that the retail focus of the industry, including that of BFSI, coupled with the uptake of Internet by retail consumers, can hypothetically be looked upon to together deliver the key for next generation Internet banking. This will in essence entail capitalizing on Web 2.0 in the banking sphere to garner the business potential presented by existing large consumer banking networks.

Internet Banking: Journey so Far

The Internet banking model was originally built around 'need for convenience' - replacing identified brick-&-mortar services and providing an online means of reaching out to the bank. Basic offerings included inquiry facilities and in-house

fund transfers. Eventually, facilities like bill payments were extended to the Internet, further expanding the 'convenience' paradigm. Since there were no billing aggregators then and the model was not mature for the market, Internet banking solutions served as mere aggregating mechanisms.

This paved the way for the next category of features to be introduced to the retail world - inter-bank local payments, international remittances, communication through secure e-mail with dedicated relationship managers from the bank, interactive marketing and exposure of account relationships through online channels. Thus was born the 'differentiation' paradigm, which further led to introduction of conveniences like notification mechanisms through customer-preferred modes (e-mail, facsimile and voice), along with investment and personal financial management services.

A good example is Singapore which has one of the highest Internet penetration rates worldwide. All major Singaporean banks provide Internet banking platforms and many also provide host-to-host capabilities to link up to companies' back-office operations for file transfers. The authorities in Singapore have been proactive in recognizing the role of the Internet as a delivery channel and have strongly promoted Internet banking. MAS, the central bank of Singapore has welcomed Internet banking operations in Singapore. Now, with the deep penetration of Internet banking, the focus has moved to enhancing the length and breadth of the scope of services offered via electronic channels. Regular reviews and active participation from Singaporean banks, regulators and other government bodies, in issues revolving around Internet banking like enhancing online security, is commonplace.

With Singapore's local branches adopting sophisticated security measures, online banking is increasingly perceived as a safe and efficient way to handle transactions. The larger banks are developing impressive multi-channel integration on a single platform with new generation internet banking services, interactive ATM services and secure mobile banking. This has become instrumental in enabling them to offer a commendable level of convenience, mobility and accessibility to customers along with real time information integration. The launch of new and improved online services is a natural outcome of these initiatives. Notable innovations in the online

space like Citibank's 'dynamic PIN-Pad', that rotates the number display randomly, making it difficult for hackers to steal online access codes, is a sign of maturing practices.

The 'convenience' paradigm, apart from bringing permanent changes to the way we bank, has also strengthened the bottom-line by way of cost savings accrued through the online mode of service delivery. It is estimated that Internet banking offers up to a minimum of 60% (and much more at higher volumes) cost saving over conventional offline banking. In addition, the 'differentiation' age came about enabling banks to charge additional fees for uniquely new capabilities, thereby positively influencing the top-line as well.

Migration to online banking services has helped several global players throttle back other customer-service channels—such as ATMs, bank tellers, and telephone services—that are more expensive to maintain. In fact a leading global retail bank has gone on record stating that 37% of all its customer transactions are done online, more than through any other channel the bank offers, adding that a reversal of this trend would adversely impact its cost and revenue models. Increasingly, global banks maintain that online channels present them never-before opportunities to cross-sell services to customers, because while clients may not visit the branch everyday, they are online every day.

The Next Wave

Banks are looking at newer ways to tap the tremendous consumption potential from their vast retail consumer base, which has traditionally been the early adopter of new initiatives.

Total Automation, Biometrics, Direct Banking, Wikis – are no longer words that flash from the technology-centric sphere to influence the universe business into forcibly creating something new. They have indeed become realities of a mature Internet banking world, setting the stage for the new era of 'Absolute Branchless Banking'.

Some of the questions that banks have increasingly started to ask are:

- Beyond routine banking services, what do my consumers really need me to offer to them?
- I know my customers are privy to a huge knowledge pool. If I offer them a virtual place to share this and make friends with others, then why would they need alternative social networking websites, like Facebook, Flickr, Fotolog, Orkut, Netlog?
- How do I make my customers refer their friends and associates to sign up for my online services, with the precision of a 'closed loop circuitry', thereby making the account opening process simpler and faster, without having those references ever step into the branch?
- How can I enrich my online relationship with my customer; would video chat facilities with relationship managers help?
- Can I extend my online services from other channels like mobile devices and televisions?
- Can I offer auctioning facility through the Internet banking site?
- How do I push intelligent content to consumers, based on heuristics around their relationship information?
- How can I make security measures appear less overwhelming to consumers?

New regulatory considerations like debating the possibilities of making Two-factor Authentication (2FA) mandatory in Asia's banks today, is a sign of our times, when financial institutions are going to great lengths to boost consumer confidence in Internet banking.

The Way Ahead

Banks have started answering many of those questions which at times means taking several online business models head-on; in many cases even redefining them. The key trends that are emerging are:

- Availability of Web 2.0 forums (like newsgroups, Wikis, RSS feeds) as part of banking portals
- Portal-aware banking solutions that can be invoked from virtually anywhere on the bank's portal

- Mobile commerce models (for P2P, B2C, C2B payments) riding on top the mobile banking platform
- Newer channels for banking products and services delivery like IP-TV and conditional access systems

Banks are looking to ensure that they are not bound by the limitations of existing channels for service delivery. They are keen to experiment on newer channels like mobile and television, with features like offshore transfers, and a minor percentage of the vast retail consumer base is the most comprehensive test-bed they can ask for. For instance, banks offer cash rewards for early adopters of new services as tools to drive consumers into trying out new features. The discussion forums available on banking sites provide consumers opportunities to convey their experiences and recommendations, as well as discuss various aspects of a feature with other users of online services.

Technology Partners: Playing Facilitators

Electronic banking solution vendors are increasing moving in sync with the market, focusing on building beyond their core competencies. Like every other stakeholder in the business, technology vendors understand that Internet banking will not be limited to the set of features that we see today. The first phase of online banking capabilities is today deemed as hygiene, and newer capabilities are being conceptualized each passing day.

Banks can increasingly relying on new-generation electronic banking solutions built on open architecture, with robust security features that provide true relationship banking functionality. With the industry in the throes of constant flux, they are prudently opting for solutions to meet not just current business requirements but also be scalable and flexible to meet the changing demands of the retail customer.

Strong vendor viability, undisputed delivery capability and complete alignment with banks' roadmap to actualize next generation banking are key determiners of technology vendor selection.

Conclusion

In summary, the business is driven by one mantra - virtually all types-and-kinds of banking services to be made extendable across channels, including the Internet. Making that happen would be a common agenda for banks and technology solution vendors. This phase, largely enabled by disruptive technology, will give birth to a new era in channel banking that will let banks infiltrate homes, offices, restaurants and mobiles, like never before.

Author

Amit Vats

Product Manager
Finacle

Infosys Technologies Ltd.



Infosys Technologies Limited, Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India • Tel.: +91 80 28520261 • Fax: +91 80 28521747
e-mail: finaclemktg@infosys.com • www.infosys.com/finacle

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