

## INTERNET BANKING

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**Online Banking delivers cross sell success as multiple accounts reach 4 per online banker compared to 2.4 for offline. 25% pa online account growth drives Internet Banking further.**

**FINAL RELEASE**

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## Online Banking delivers cross sell success as multiple accounts reach 4 per online banker compared to 2.4 for offline. 25% pa online account growth drives Internet Banking further.

These results emanate from the just released June 2005 Bank-sponsored, MISC (Market Intelligence Strategy Centre) Internet Banking Data Pooling Facility. The data collected and pooled is submitted by most of Australia's leading Internet Banks including pool members like National Australia Bank, Suncorp, Westpac, BankWest and Bendigo Bank with special assistance from Citibank and Bank Of Queensland.

A 36% growth in 18 months i.e. 25% pa in new Internet Banking account relationships translates into better cross sell performance online than offline. By the June quarter 2005, Internet bankers held on average 4 online account relationships with their bank compared to 2.4 for offline channel bankers. Furthermore, new account openings outstripped closures or rationalisation (as some customers prefer) 2.24 times and in net terms, account openings exceed account closures by 1.2 million in the last June quarter. This means that online multiple account relationships average some 4 per active user compared to a lesser multiple for offline customers of 2.4. These results stem from the recently released June quarter results of the co-operative bank Internet Banking Industry Pool assembled each quarter by MISC (Market Intelligence Strategy Centre) on behalf of its bank pool members. It seems, says MISC (Market Intelligence Strategy Centre) that the online channel has been singularly more successful than those offline channels in attracting and cementing multiple banking relationships and hence cross sell. This is the strategy that all banks are dedicated to delivering, in what is projected to be more difficult banking conditions in the future. The MISC pool collection for the June quarter 2005 shows that operating these accounts is a vital activity for an Australian online banking community which last quarter alone made 225 million transactions across these accounts. The result, says MISC (Market Intelligence Strategy Centre) on behalf of its bank pool members, reflects in part, the uptake of new account developments like HIOSA (High Interest Online Savings Accounts) as well as cross sell success. This follows the efforts of some banks that have been encouraging customers to embrace more online services. In addition multiple account growth has also resulted from increased competition in some market segments e.g. credit cards, along with functionality changes, which favour or encourage the greater migration of offline accounts to online.

### 38 % online account growth (ie 25% pa) see Ave reach 4

Account relationships per customer	Offline = 2.4 December 2003 000s	Online = 4.0 June 2005 000s
Transactions (inc. History)	150,910	223,403
New Account Openings	1738	2264
Account Closures	1151	1011.6
<b>Account Opening Ratio</b>	<b>1.5</b>	<b>2.24</b>

Source: Market Intelligence Strategy Centre (MISC) Internet Banking Data Pooling Facility June Quarter 2005



Since 2003 the number of active user accounts in operation has grown by some 38% and the ratio of transactions while transactions on these accounts have grown by 48%. MISC says that several factors have created circumstances in which both the number of bank offerings has increased and the greater use of them online has also grown. While initial HIOSA offerings were stand-alone products, the trend to link them with transaction accounts has encouraged offline to online migration. Such extensions were reflected in the Westpac first HIOSA offering or the Suncorp Everyday Options and Business Investment Account Options for example. Accessibility has been enhanced as a consequence, not only with HIOSA's but other account offerings. HIOSA development has also enhanced the necessity for frequent transfers by way of online deposits to leverage best from the higher and regularly adjusted interest rates. MISC (Market Intelligence Strategy Centre) believes that the high levels of HIOSA interest rate offerings that were in excess of term deposit rates at the time also have supported the changes. The Reserve Bank's call to increase credit card competition has also been well heeded by Banks in this online channel via the promotion of interest free periods, and free fee and zero fee transfer innovations. Several banks had embarked on promotion of credit cards while some like Westpac have used them in specific cross sell promotion. The "all you can eat" flat fee account innovations in an increasing rate and fee sensitive environment, have also hit a nerve, with many Internet bankers seeking to limit fees by migrating accounts. Examples of these innovations include the second generation Westpac one \$5 fee flat fee or the "Smart Account" offerings by the National Australia Bank. In additional special targeted products, especially to the business sector, have prompted further migration. These include the "authorise all" functionalities of banks like Bendigo Bank, the future date or the multi fund transfer template of the National Australia Bank. Ironically the branch developments activity of some banks especially those with a rural focus, has encouraged wider small business acceptance, which has flowed though to online account migration. Additionally several Banks like Suncorp have deliberately embarked on far more direct customer initiatives to encourage wider cross sell as a core strategy.

**Online product innovations that expand multiple accounts take up and use**

MISC Australia (Market Intelligence Strategy Centre), on behalf of its bank pool members, announced these results for the June 05 quarter Internet Banking collection today. As the selected highlights in the table show the last 12 months in which this multiple account level has accelerated, saw more than five introductions of HIOSA offering or significant upgrade or extensions e.g. separate business HIOSA developments. Among the more recent HIOSA developments were those of Commonwealth Bank, National Australia Bank and Esanda. The same table also illustrates the various credit card initiatives from the more aggressive BankWest innovations to the reactivation online of credit cards with St George Bank.

Selected Functionality Advances and Internet Banking Account Developments Impacts and Drivers of 23 million Active Account Record		
Quarter of Introduction	Internet Banking Website Feature	Early Bank Innovator
March qtr 2004	New payment scheduling - immediate credit card clearance	National Australia Bank
March qtr 2004	Single access multi linked customer and accounts - business	Bendigo Bank
March qtr 2004	"Authorise all" functionality for multiple signatory accounts	Bendigo Bank
March qtr 2004	Everyday Options Sub Accounts for HIOSA and transaction banking	Suncorp
March qtr 2004	HIOSA interest rates exceed term deposit rates	Several Banks e.g. Suncorp and BankWest

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June qrt 2004	Credit card balance transfer option	St George Bank
June 2004	View savings and transaction account statements online	Westpac
October 2004	Special business HIOSA account introduction	BankWest
October 2004	TeleNet Saver	BankWest
December qrt 2004	Multi fund transfer template	National Australia Bank
December qrt 2004	Automated reactivation of credit card renewals	St George Bank
December qrt 2004	Flat fee "all you can eat" Smart Account introduction	National Australia Bank
December 2004	Maxi Direct high interest online savings account linked to transaction account	Westpac
February 2005	NetBank Saver introduction	Commonwealth Bank
February 2005	Online Saver	ANZ
March 2005	Business Investment Account Options (HIOSA and transaction banking)	Suncorp
March 2005	High Interest online savings account with transaction account links	Esanda
March 2005	Real time online credit card approval	St George Bank
October 2005	High Interest online savings account with transaction account links	National Australia Bank
April 2005	International Money Transfer for overseas transfers	Commonwealth Bank
December 2004	\$5 Flat fee multiple account options (all you can eat)	Westpac
May 2005	Zero fee credit card introduction including zero interest for four months zero annual fee	BankWest

Source: Market Intelligence Strategy Centre (MISC) Internet Banking Data Pooling Facility June Quarter 2005



## Further Background Notes to MISC Facility Service Development & Methodology

These are findings from the MISC Internet Banking Data Pooling Facility collection for the June 2005 quarter. This latest report is the twentieth so far produced by MISC on this dynamic sector of the Electronic Banking market and is based upon banks supplying quarterly detailed Internet banking transaction data adhering to a standard format and consistent definitions designed by MISC. The report is compiled exclusively for the use of the members of the facility, a unique collaborative service, developed by MISC together with Australia's leading Internet banking financial institutions.

Development of the facility by MISC is in response to the market's need to address the issue of widely conflicting market measures and the search for a definitive and regular measurement of Internet banking uptake. To date there has been much discussion regarding terms used to describe those who have been attributed as having 'experienced' an Internet banking service. The MISC Facility has reached agreement with the pool participants regarding a re-classification of 'user' definitions to ensure consistent measurement. This has resulted in the more valuable measure of 'Active' users i.e. actually transacting in the previous quarter.

Essentially the exciting 'data Pooling' initiative determines for the first time the true uptake of Internet banking activity and importantly ensures that an independent facilitator acts as a conduit for the data collection, analysis and interpretation. The MISC-run facility determines not only the true size of the market but also delivers, for participants, their individual confidential relative positions. To track the market's development, MISC coordinates 90-day data pooling measures to which all participants now confidentially contribute. The subsequent quarterly reports delivered by MISC provide the various pool participants with the opportunity to position and monitor performance. Critically, the research provides the data required to underpin accurate Internet banking site development i.e. access features and the level of service customer's desire.

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

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