DBJ REPORT

E-Banking: Singapore Banks harnessing The potential of the Internet

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Preface

We are living in a volatile world of ever-changing technology and an increasingly information intensive economy. These two trends are altering economics and challenging present business models and industry structure in more ways we can imagine.

Today's business environment is changing at gunshot speed, with the presence of the Internet and wireless technology. Firms that used to have a history of high market capitalisation suddenly find their position being threatened. Intermediaries that take advantage of imperfect information flows to generate competitive advantage and profit potential may find their services obsolete. Buyers and sellers are now constantly looking into new methods of harnessing relevant information, which is their most important asset, to make decisions.

Every business is an information business. In many businesses not widely considered information businesses, information plays a surprisingly critical role. Fundamentally, information and the mechanisms of delivering it are the glue that holds together the structure of business. It is information that holds value chains and supply chains together. But now, the explosion in connectivity are opening the almost cost-free exchange of a widening universe of rich information. Technology enables everyone to gather 'rich' information as well as 'reach' in the number of people sharing the information.

In this sense, financial intermediaries like banks may soon find their positions irrelevant. Are they going to defend themselves, attack or do both?

This report will look at Internet and telecommunications trend in Asia, with an emphasis on Singapore. We will also look at Internet or IT strategies of the four largest Singapore local banks.

Banks cannot sit back and let the world pass them by. They have to embrace Internet or IT strategies or risk losing business.

Pamela Wong Shu-Ting
Researcher

E-Banking: Singapore banks harnessing the Potential of the Internet

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Internet trends in Asia

E-commerce in Asia is fast becoming a reality. Asian companies have ample opportunities to shape, rather than be dictated by the course of change. Although traditional access and portal businesses can continue to create value in Asia in the near term, it is critical that companies see the long-term prospects that favour new access technologies and innovative enabling services, and move along these lines.

Bright economic prospects for Asia

The Asian Development Bank (ADB) says that Asia is still the world's fastest growing region. In its recently published Asian Development Outlook 2000, ADB forecasts an economic growth of 6.2% for the region this year, with crisis-affected countries growing between 4 and 7.5%.

The global demand for electronics helped spark the export boom in the region in the first half of 1999. Expansionary policies and structural reforms in the second half further stimulated domestic demand in the region. Rapid economic recovery, however, masks the underlying problems that remain in the banking and corporate systems in the region. Although the financial and corporate sector remains the weakest sectors in most Asian countries, restructuring of these sectors have been steady, described by ADB as 'work in progress', at least with the exception of Vietnam.

In Japan, the economy appears to have grown by 1.5 to 2% in this first quarter. It is widely attributed to an IT boom. In 14 months, NTT DoCoMo Inc's i-mode mobile phones, with Internet capabilities, have attracted 5.93 million subscribers, nearly 1 in 20 Japanese. Companies are investing in new computers and Internet facilities, encouraging high-tech manufacturers to expand their facilities. Household spending rose 4.2% in February over the same month a year earlier. If all goes well, a growth a more than 2% in the year ending March 31, 2001 is in sight.

IT will lead Asia in this new millennium

Although fixed line, mobile, Internet and PC penetration rate in Asia is low overall, Newly Industrialised Economies (NIEs) are way ahead of the rest of their Asian counterparts in these areas.

Singapore is broadband ready, both in fixed and wireless Internet access. The country has also liberalised its telecommunications industry in April this year. Many traditional bricks-and-mortar companies in Hong Kong are building up their Internet presence, and the Japanese telecom market is expected to expand rapidly in the face of deregulation and economic recovery. NTT DoCoMo, has already captured 5.93 million subscribers for its i-mode service, which began in February 1999. Low Internet penetration rate of 0.02% masks China's true potential where a major constraint is the cost of PC.

Sohu.com, a Chinese language web portal, has just struck a deal with Nokia, a Finnish mobile phone giant to provide wireless Internet connections, enabling mobile phone users in China to access services from the Sohu website, including emails, news, real time stock quotes, financial information and more. Intel has also chosen Beijing as the location for the company's third centre for the development of wireless technology. Eager to get a piece of the country's fast-growing Internet business, even state-backed firms are launching Internet ventures.

Diagram 1: Penetration Rate in percentage

	1999		2002E		2005E	
	Asia	**NIEs**	**Asia**	**NIEs**	**Asia**	**NIEs**
Fixed lines %	10.0	49.3	13.6	51.8	17.4	54.1
Mobile %	5.5	49.6	8.6	60.0	11.9	66.6
PC %	3.3	40.4	5.0	49.4	7.7	60.4
Internet %	1.0	14.3	2.7	36.2	5.1	58.2

NIEs: Hong Kong, South Korea, Taiwan, Singapore
Source: IDC, DIR estimate, Government, Companies

In 1999, Asia accounted for 1/3 of the 14.4 million PCs shipped in the Asia Pacific excluding Japan (APEJ), according to International Data Corp (IDC), an IT research group. Indonesia's PC shipments grew at an astounding 270%. Korea's PC growth grew 80%, China's growth was 26%, Korea 80% and Taiwan 55%.

Asia is fast building up Internet and Mobile infrastructure

More than 40 leading telecommunications organisations are joining forces in building a new high capacity submarine cable network, costing US$1.06 billion, that will serve 8 countries in the Asia-Pacific region, namely China, Hong Kong, Japan, South Korea, Malaysia, the Philippines, Singapore and Taiwan. The 19,000-kilometre network, called the Asia-Pacific Cable Network 2 (APCN2), it will be in operation by third quarter of next year.

Among them are Cable & Wireless HKT, Telstra, KDD Corporation, NTT Com, China Telecom, MCI WorldCom, Telekom Malaysia, Singapore Telecom and Starhub. Singapore partners SingTel and StarHub are said to invest US$40 million and US$30 million respectively.

IT spending in Asia-Pacific, excluding Japan is set to double in five years to more than US$100 billion in 2004, according to IDC. Growth in IT spending will be fastest in Southeast Asia and India at 21%, followed by China at 19.6%, South Korea at 9.6%, and Australia and New Zealand at 9.1%. Companies are now shifting to integrating services to help them get their products to customers faster and develop a competitive advantage.

Recently, the world's top 3 phone manufacturers, Ericsson, Motorola and Nokia has teamed up to develop an open and common industry framework for secure mobile electronic transactions that will accelerate the growth of e-commerce. Some key technologies include WAP security functions and Public Key technologies.

Telecom and Internet markets liberalisation accelerates

There is an acceleration of liberalisation of the telecom industry across Asia, and is "one of the fastest-growing market in the world for telecoms", as Newbridge Networks Vice-Chairman, Peter Charbonneau told Business Times. Hong Kong's telecom industry is considered to be the most liberal in Asia. It has the highest mobile phone rate in Asia of more than 55%.

Singapore has liberalised its telecom industry in April this year. Current major players are SingTel, Singapore Cable Vision and recent entrants, StarHub and DataOne. The government will be issuing more licenses to telecom providers. New opportunities await incumbents and new players. Firms are strengthening their position, through mergers, like Islacom and Globe Telecom in the Philippines, to compete in this fast-paced industry.

Japan's deregulation of this industry means lower charges and diversified services. International comparison if Internet charges revealed that under the i-ai Plan 1200, Japan has the lowest fees for 10 hours per month of Internet use. Under the i-ai Plan 3000, the fees in Japan for 30 hours per month of Internet use are the lowest after the US.

Thailand will establish a legal framework for online trading and a digital signature Bill for secure online transactions at the end of the year. This new legislation will boost the country's Internet business. The absence of Internet-related laws is one of the main reasons for the slow growth of its electronic business. There are currently some 600,000 Thai Internet users in 1999, out of a population of 60 million.

Widespread penetration of cellular phones and other wireless devices in Asia promises to make this region the clear forerunner in wireless data transmission. Low growth in WAP technology masks the true potential of Hong Kong, Taiwan, Singapore and South Korea markets, where a major constraint is the lack of handsets available.

Asia's market not as mature as in the US, but potential is there

Several hindering factors of e-commerce of constraint in the Asian market is lack of internal expertise and budget constraints. Signs of immaturity include low budgets for e-commerce, limited range of products sold online and little outsourcing of e-commerce to expert consultancies.

In a recent study by Access Media, a Singapore-based market research firm, of 2,137 companies in South Korea, Singapore, China, Taiwan and Hong Kong, 476 companies are currently doing e-commerce. The majority of the remaining 1,661 companies not doing e-commerce plan to do so within two years.

Taiwan had the highest rating in companies doing e-commerce at 23%, followed by China at 17%. Singapore was fourth at 12%.

The majority of companies polled had annual budgets for e-commerce of less than US$50,000 (S$84,750). Among Singapore companies doing e-commerce, 62% had annual e-commerce budgets of less than US$50,000. Only 15% had budgets above US$100,000.

Only 10% of Singapore companies doing e-commerce generated more than 10% of their sales online. 60% generated less than 10% online. Similar results are obtained for South Korea, Hong Kong, China and Taiwan.

More needs to be explored in the e-commerce market. Asian companies should look into like the provision of wider range of products like e-services, bill payment and restaurant booking.

In this respect, Asia has yet to reach its full potential in the e-commerce market. There are tremendous opportunities for the innovative to tap into. The new age Asia will be shaped by acceleration of infrastructure build-up, enhancement of technology, E-commerce, government and private participation, liberalisation of the telecom and Internet market.

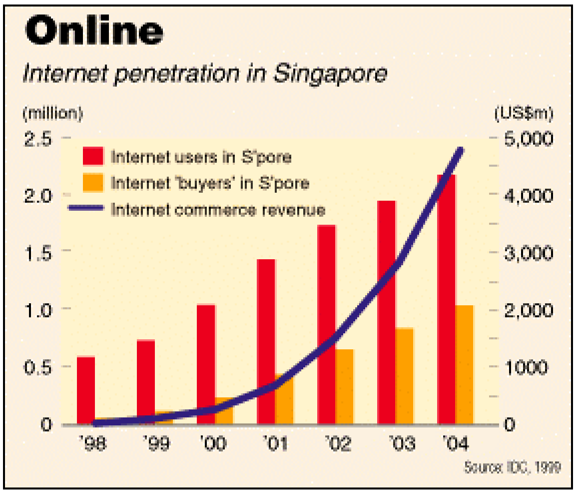
Observations in Singapore

Here are some observations of noteworthy surveys done about Internet trends in Singapore.

Internet penetration increasing exponentially

In a study by IDC, it projects that individuals link up to the net will more than triple here from about 600,000 to over 2.2 million by 2004.

Diagram 2: Internet penetration in Singapore



In a survey done by MasterCard in 13 Asia-Pacific economies, an interesting observation was noted that 20% of Singaporeans are spending less time with their families as a result of surfing the Net. 47% of Singaporeans polled said they spend at least an hour everyday on the Net. 40% among them spend 2 to 3 days a week chatting. Virtual bonding may soon become a way of life.

E-business mushrooming

A few years ago, not many Singaporeans aspire to become entrepreneurs. But with the lure of the Internet, and the possibilities of striking rich in a short span of time in the IT world, small and medium sized enterprises (SMEs), mostly dot.com companies are springing up. This new class of SMEs, seen as trend setters, ranging from property to shopping and financial services, are set to push the net economy further.

Business and IT professionals with "stable" jobs, and comfortable salaries are leaving their companies to set up Internet ventures. One example is Mr Vasu Menon, a manger in Keppel Securities for 6 years, left for OCBC's new e-bank venture, finatiQ, as a chief editor.

Singapore now boasts plenty of small and medium-sized companies over the Internet. Among the most prominent names are Mediaring.com, Bex.com, Ecnet, Dollardex and Creative Technologies.

According to IDC, e-commerce in Singapore is set to hit US$4.75 billion (S$8.1 billion) by 2004, from under US$200 million presently. IDC also noted that Singapore will reflect the global trend in B2B and B2C e-commerce, in that 80% of the e-commerce here will be B2B.

In another survey done by the Singapore IT Federation (SITF), about 15% of Singapore companies used e-commerce in 1999. The SITF expects the percentage to go up to 40% by the end of this year. There are also various government initiatives to "dot.com" Singaporeans, provide venture capital funds and technical assistance, loosening bankruptcy laws, throwing up huge opportunities for the new class of SMEs.

Government initiatives

The Singapore government is taking initiatives to liberalise the financial and telecommunications industry, which will spark competition.

With the total freeing up of brokerage fees next year, the stockbroking industry is set for a shakeout. The number of brokerages is expected to fall dramatically, with some expecting only half in operation.

The Monetary Authority of Singapore now working on regulations on Internet banking, which will be out soon. It is also exploring electronic bond trading, in its bid to make Singapore an international debt hub.

Key challenges to be online security and lack of IT skills

IDC noted that Singapore has to address the concerns about online security and shortage of information technology skills.

The country has more than 90,000 infocomms professionals now, but it needs about 10,000 IT professionals a year to sustain the e-boom, or risk losing it competitive edge.

Of the 3,500 Net users here and 7,000 in the US polled, 59% of Net users in Singapore compared with 24% in the US rate online security as a major concern.

www.consult, Australia's largest Internet e-commerce research company based in Singapore, has also revealed that the number one concern among Singapore users is the cost of access (32% down from 38%), followed by privacy (20% up from 14%), response time (14% down from 21%), and security of financial transactions (12% up from 6%).

What Singapore banks are now are doing

E-banking in the making

Asia has just formed its first standalone e-bank, named finatiQ, launched on the 18th April. It is formed by OCBC, using its banking licence of its wholly owned subsidiary Bank of Singapore. I believe this is but the beginning of many other e-banks to come.

E-banks have an edge over traditional bricks and mortar banks for its lower cost structures, no legacies of existing banks, and limitless customer access. Lower overhead and operational costs allow e-banks to pass on their savings to customers in the form of higher deposit rates and lower transaction fees. It also offers customers choice, convenience, value for money and financial intelligence at their fingertips.

Although banks are responding to the threats and opportunities of the New Economy, it is still a fuzzy picture as to how best to win. The unpredictability of customers in the online world and the speed at which the competitive landscape changes all add to the risk when banks jump into the bandwagon of electronic banking.

In the frenzied world of the New Economy, banks must learn to build on their intangible assets that are difficult to duplicate like customer relationships, back-office capabilities and ‘rights of way’. By assessing their assets in this light, traditional banks can move beyond an end-user focus and capitalise on opportunities in online payment, kiosk-based Internet connection and even transport through their branch rights-of-way.

Banks are forming strategic alliances to enhance their Internet capabilities

Strategic alliances are perhaps the next key to leverage their assets. There is tremendous potential for Asian banks to ally with wireless access providers and introduce ground-breaking wireless payments. Banks wishing to offer access through their branches would do well to partner with a telecom or other provider of “pipes”. In addition, banks may find that a portal partner can enhance the banks’ customer interface and drive traffic to its online services.

In its drive into e-commerce, OCBC has joined the global electronic trade system, bolero.net, which provides a unique and global technical and legal infrastructure that complements the functionality of name B2B e-commerce initiatives. OCBC’s customers can enjoy paperless and secure communication network, which improves efficiency, customer service and raise the bank’s profits. OCBC will be fully plugged into bolero.net in a few months and expects 15-20% of its 4000 customers to use the service within the first year.

A new eSolutions department was just formed within OCBC, responsible for rolling out the next generation of web-based cash management, documentary trade and FX applications to its corporate clients. They also work closely with other business units within the bank to structure integrated end to end cash management and e-commerce solutions for its clients, including collections, e-procurement, account management and payments.

DBS has partnered with SingTel to provide its customers with mobile banking services. It has also teamed with Sun to be one its technology providers to accelerate adoption of its

Internet services capable of supporting the demands of interactive e-banking needs. The bank's other is IBM.

The bank has purchased 2 Sun Enterprise 10,000 "Starfire" servers, a high-end, multi-processing server. This is part of its annual investment of S$200 million budget for IT. The server allows users to run on demanding, mission-critical, multi-terabyte applications for data warehousing, decision support, online transaction processing and data analytic on a single scalable server.

UOB has also named Sun Microsystems its "regional technology partner", intending to extend its Cyberbank services into the region beginning through its acquired banks UOB Radanasin of Thailand and UOB Philippines.

Banks are investing in dotcoms to extend their regional presence, increase market share and raise revenues

In January this year, OCBC formed a 40:60 joint venture with Singapore Computer Systems (SCS) to operate an online e-commerce hub, TX123, with an initial paid up capital of S$7 million. TX123 is a B2B e-commerce site, enabling companies to sell and procure goods and services. It allows users to obtain quotations, make purchases, make orders, track and confirm their delivery online.

With TX123's anchor tenants like Singapore Technologies, OCBC Bank Group, SembCorp Industries and business links with GE Information Services international network, it is projected to become one of the e-commerce hub in the region.

DBS is able to provide a complete trading hub for B2B activities on the net, complete with financial management and payment functions. It has been able to do that with IBEX, IDEAL and the Purchasing Card, tools which facilitate e-commerce.

UOB has a stake in SESAMi, established in 1999. They operate two portals, SESAMi.com and SESAMi.net, with a goal of becoming Asia's leading B2B marketplace portal.

Banks are increasing their IT expenditure

All the four largest local banks in Singapore have increased their IT spending over the last few years.

In early 1999, OCBC has already drawn up its IT strategy in its OCBC 3.0 initiatives. Its IT spending as a percentage of total expenses has increased from 15% in 1996 to 20% in 1999, and is expected to exceed 20% this year. OCBC has already set aside S$1 billion over 3 years for IT investment. S$400 million to transform OCBC from a brick and mortar bank into a "click and mortar" bank, and S$600 million for its e-bank, finatiQ.

DBS has announced that it would double its IT spending from S$100 million or 10% of its total operating expenses in 1999 to S$200 million this year. The budget of S$200 million is about 25% of its total expenses.

Both OUB and UOB has also increased their IT budgets over the years. More is mentioned in their respective IT strategies in the following sections.

OCBC going finatiQ

finatiQ is Asia's first standalone e-bank, launched on 18th April of this year. It is a full licensed bank, operating as a division of the Bank of Singapore, a wholly owned subsidiary of the Overseas Chinese Banking Corporation (OCBC) Bank Group.

finatiQ targets the financial needs of the net-savvy customers in Asia, beginning in Singapore. It intends to reach 3 countries by the end of 2000 and 10 countries by 2002. With the financial strength of OCBC and funding of S$260 million, it aims to build itself as the dominant regional brand in e-banking.

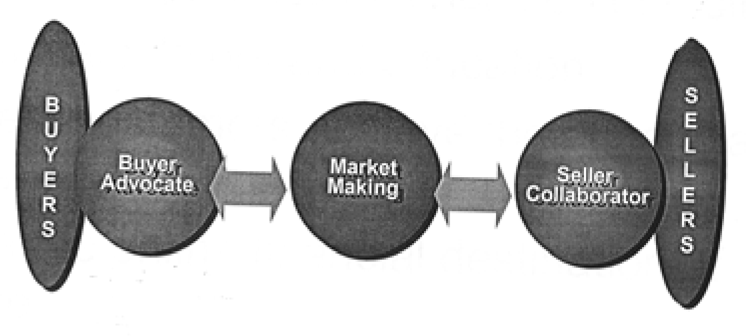
finatiQ has more than 20 partners and alliances including Andersen Consulting, Sun Microsystems, Singapore Computer Systems, Schroders, Templeton and Aberdeen Asset Management Asia.

The OCBC model

OCBC's response to the changing New Economy is two-fold, one defensive and another an attacking strategy. A defensive strategy is to transform OCBC, a brick and mortar bank seemingly under attack from changing economics and e-bank entrants, into a click and mortar bank, playing in the seller space. This adaptive strategy is demand driven, attuned to the changing customers needs, moving along with customers as they migrate from the brick and mortar to the virtual world.

On the other hand, OCBC leveraging on its Bank of Singapore license, sets up finatiQ, the e-bank playing in the highly scalable buyer space with no barriers to entry and totally new opportunities. finatiQ concentrates on B2B, B2C and e-ventures, creating new customer segments and new demand in the New Economy. finatiQ strategically places itself as a buyer advocate and trusted third party, providing an indispensable reference for customers' financial decisions. See diagram 3.

Diagram 3: The competitive landscape



Source: OCBC

Products offered with better deposit rates and lower transaction fees

finatiQ has an initial offering of investment account and unit trusts. Securities broking, mortgages, lending, credit cards and insurance will be rolled out in the months to come.

With the investment account having an interest-earning rate of 2%, it is the highest in Singapore, comparable to a 6-month fixed deposit rate. The investment account is similar to the cash management account offered by foreign investment houses and it facilitates transactions such as the purchase of financial products online.

finatiQ is currently the largest online distributor of unit trusts, with more than 114 unit trusts from 13 fund managers. 3 more fund managers with 20 funds will be added in the next few weeks. Customers can enjoy 50% savings off the usual 5% initial sales charge for most funds, paying only 2.5% or less.

By also providing online tools, stock-tracking tools, calculators and guidance for financial planning, it provides the ‘man on the street’ simple planning tools, friendly tips and sound advice in a straightforward and entertaining manner.

Key challenges

I would argue that its key challenge is its regional expansion. Individual banking license is difficult to obtain, if not impossible. What OCBC can presently do is to leverage on its current regional strength on China and Malaysia, and position OCBC as the bank of choice for companies and investors from their core markets in Singapore, China and Malaysia when they invest in these locations.

In the longer term, as Asian countries gain economic strength, there are high possibilities that barriers to monetary expansion will go down. In this case, OCBC can hedge on to their position as a first mover to expand in the area of e-banking.

OUB using a multi-channel approach to reach customers

Overseas Union Bank or OUB is Singapore’s 4th largest bank, and has earned its name as a leading consumer bank in the country. It ranks 142nd in The Banker’s July 1999 survey of the world’s top 1,000 commercial banks. Since 1992, when it embarked on a concerted programme to become a niche player in consumer banking, it never looked back.

Its acquisition of Chase credit card base, OUB inherited Chase’s high-end, more profitable segment of the consumer market who preferred to bank with foreign banks, and OUB has successfully won them over, thus differentiating themselves from other local banks.

Forward looking business strategies since the 1990s

The bank’s move to re-engineer their business in the mid-1990s gave them a sharper focus on its customer target segments and raise business efficiency.

OUB is wise to invest in brand building initiatives to strengthen the OUB name. The OUB brand is synonymous to being a nimble, progressive and innovative organisation.

OUB was early to recognise the increasing role technology was to play in the financial services industry, and was dedicated to investing in information technology ahead of other local banks. They view IT spending as an investment rather than an expense. Over the last 3 years, OUB has invested 30-35% more on information systems than their peers. OUB intends to spend more than S$300 million on IT, up to 2001, in their OUB2000 strategy.

Their investment paid off. They now receive a few thousand calls a day. Their website has been voted the best in Singapore last year. Since launching their portal on housing loans in April 1999, the number of hits increased from 1 to 3 million a month. They were able to capture a 40% rise in new commitments in 1999. 18% of housing loan applications came through the Internet.

Peter Seah, president of OUB believes that Singapore banks have little choice but to be plugged into the age of the New Economy, or risk being marginalised. This is a realistic view, judging from the soaring Internet, mobile and PC penetration in Asia. In addition, the Infocomm Development Authority of Singapore, under the Singapore Government is has undertaken a 3-year programme to 'dot.com' Singaporeans.

He considers the Internet strategy as a must do strategy, or risk becoming irrelevant in the future. As Bill Gates has aptly put, "You need banks but you don't need bankers".

Using a multi-channel approach, with Internet as a strong and dominant platform

OUB's IT strategy taps on the 4 main channels for reaching customers:

1. *Internet Banking*
   Harnessing the power of the Internet as a sales and services channel, providing customised effective products and services.
2. *Standalone E-Bank*
   To set up a standalone E-Bank with its own business model and processes, with abilities to pass lower operating costs to customers.
3. *E-Commerce*
   OUB intends to maximise potential returns by investing into e-businesses, which may or may not be related to banking business.
4. *M-Commerce*
   Using mobile devices for banking, in addition to a host of other life-style capabilities like booking cinema tickets, access news, shopping etc.

OUB is able to maximise their distribution channels through better use of technology, and plans to close 20% of their branches at the end of April this year. Through its alternative distribution channels like phone banking, Internet banking and MobileNet, they are able to cut costs and transfer staff into priority areas that will generate growth and revenue.

In short, their multi-million dollar OUB2000 strategy seeks to redefine consumer banking through technology, with the vision of providing anytime, anywhere access to banking services, and so far they have done that successfully within a short span of time.

OUB next to form e-bank, named first-e

OUB is the first bank to conceive the idea of a standalone e-bank, but not the first mover. The e-bank, named first-e, is a 50:50 joint venture with Dublin-based first-e, Europe's first Internet-only bank, controlled by Ireland's Internet investment company Enba. It is expected to be up and running by the third quarter of this year.

Online banking has a provisional license from the Monetary Authority of Singapore or MAS, and OUB is still awaiting word on getting a firm approval for the license. OCBC was able to beat OUB in forming an e-bank because under MAS' legislation, banks are able to conduct 'virtual' banking through the use of a division within the bank, like OCBC did with its subsidiary, the Bank of Singapore. A separate license is required only if the banking business is to be conducted by a separate legal entity.

First-e is treated like an acquisition rather than a subsidiary of OUB, separate from OUB's cost structures, loans or legacies. Treasury functions will be handled by OUB, but it will be run by it Dublin partners, not by OUB's staff, so there is no retrenchment, and no time is wasted on rebranding and teaching the OUB name. It begins with new customers, new loans, and fresh revenue.

First-e will offer all the facilities that traditional banks do, but at a lower cost. Deposits can be done only by wire transfer, but cash withdrawals can be made through any ATMs with a Maestro-Cirrus sign. Accounts can be opened for as little as $1.

With the initial start-up cost of S$280 million, first-e hopes to get 100,000 subscribers in its first year, and expand in Australia, Hong Kong, Korea and China. First-e will also consider taking in shareholders as it expands.

Separating the OUB name from first-e

OUB will not sell first-e through its existing distribution channels of branches, Internet and call centres, to minimise on cannibalisation. Instead, it will promote e-banking through bank-based websites and non-bank financial portals, through strategic alliances and bundling of banks and non-bank products. It is a wise move, as cannibalisation is bound to occur, but the success of the e-bank will outweigh the loss of traditional business OUB may lose.

Key challenges

Similar to finatiQ, first-e new venture needs permission from regulators in each of the countries in intends to operate in Pan-Asia. It is a big question how willing regulators are in allowing Internet banks to enter their market in the midst of their efforts in repairing their domestic banks. In fact, Thailand and Indonesia are still trying to sell some of their local banks which collapsed during the Asian crisis. Internet banks are seen more as a threat than an opportunity in their weak financial market.

UOB's 'Touch, Click and Mortar' model

United Overseas Bank (UOB) Group, being the third largest local bank, comprises of United Overseas Bank, Chung Khiaw Bank, Far Eastern Bank and Industrial and Commercial Bank.

Best performer in ROE among 5 listed local banks

UOB is the best performer in 1999 among the 5 listed banks in terms of ROE, which jumped to 12.6% from 5.7 %, beating Singapore's largest bank, DBS, which had the second best ROE of 10.35%.

UOB also has a record high profit of S$760 million in 1999, up 130%. Its closest rival OCBC, had a net profit of S$690 million, up 45%.

The bank's substantial increase in profit was due mainly to lower provisions, higher fee and commission income from increased unit trust, credit card and stockbroking activities, higher dealing income from investments and higher profits from associated companies. The acquisitions of subsidiaries, UOB Radanasin and UOB Philippines did not have a substantial impact on the group's profit in 1999.

UOB, as like other local banks are heading regional to boost its business, as the local market is small. At the same time, the Singapore government is gradually liberalising the country's financial market, beginning with the liberalisation of the securities industry. UOB securities and Kay Hian Holdings, another leading local stockbroker have recently merged in preparation of this liberalisation.

The UOB IT model

The bank has revealed an integrated model for its cyberbank, namely:

1. *Touch, Click and Mortar (TCM) Model, and*
2. *Building strategic alliances*

Touch, click and mortar each represents a distribution channel. 'Touch' for the mobile phone, 'Click' through the PC, 'Mortar' for the physical building of branches and service centres.

UOB sees derived or secondary needs as a means to understand ways or reaching customers. Wherever they are, customers will use the most convenient mode to transact with the bank, be it by phone, PC/Notebook, or physical branches. If the customer is at a shopping centre, the physical branch will be the most convenient for him, of he is on an aeroplane, the computer will be most convenient, if he is on the street, then the phone may be the most convenient. In this perspective, UOB uses an all-round, integrated model to reach customers.

'Touch' and 'Click' strategy

UOB currently has 4 portals running. They are in the areas of asset management, e-treasury, securities trading, and cyberbanking. The Cyberlink page is the unifying process to these portals. The most successful is the asset management portal, offering more than 20 types of unit trusts to their customers to invest online. Customers can pay by credit card, cheques, and do their personal accounting online. Cyberbanking allows account holders with UOB access to their personal accounts, make banking transactions, make applications, purchases and enquiries. E-Treasury allows online foreign exchange trading, while Cybermall offers shopping via Internet.

Mobile phone shopping has not taken off yet, but UOB already has plans for this up-and-coming trend. They want to build mobile, financial and lifestyle portals for the mobile consumer. A novel way of overcoming the hassle of keying in addresses and personal particulars over the phone, customers are encouraged to sign up with UOB, with all their particulars stored in a database. When making any orders, all they need to do is to press the option number for addresses, telephone numbers, all these with a single pin. Convenience is key.

UOB and Kay Hian merged form Singapore's second largest broker

This recent merger has created the country's second largest stockbroking group after Goh Vickers, with a combined net profit of $93 million and 454 dealers and remisiers. It combines Kay Hian's risk-taking culture with the bank's conservatism. Under the merger, the new company will be stronger position to compete in the fast changing financial services sector.

The company has recently offered attractive packages to attract customers and offer new forms of share financing, as well as online trading.

'Mortar' strategy

Branches are decreasing in importance. UOB currently has 71 branches and kiosks and has plans to reduce the number of branches. Physical distribution branches will have more use of ATMs, NETS, and through cyberbank. Right now ATM, NETS and cyberbank consist of 2% of transactions. They foresee that web transactions will increase to 7%.

They would like to enhance their core competencies. For example, by putting attractive contents on the web, invest in logistics, and build strategic alliances.

Forming an e-bank?

UOB has not ruled out the possibility of forming an e-bank, but it will not rush into it. It is evaluating the whole concept. Feedback has shown that customers prefer the convenience if Internet banking combined with the comfort of a human touch. Being the third largest Singapore bank, UOB is a market leader, with 1.6 million accounts. They will leverage on their large customer base to control the pace of cannibalisation, should they intend to form an e-bank.

Regional ventures

In asking how they would want to venture into the region, UOB would use different methods for different countries, because each country differs in culture, size, financial circumstances, to name a few.

In Singapore, they would use the TCM model, but will probably use an e-bank to penetrate new markets. The present reach consists of Radanasin bank in Bangkok and UOB Philippines. Since they already own an operating license, these will be the first countries they intend to venture.

With its Sun partner, UOB intends to spend S$21.2 million this year to extend its Cyberbank into Thailand and the Philippines. In September, it will start offering basic account services and credit cards through the Internet. Other services will be rolled out in line with customer demand and the growth of Internet users in the 2 countries. They currently have 97 branches and 90,000 customers in UOB Philippines and 68 branches and 208,000 accounts in UOB Radanasin.

No budget constraint and human resources
UOB sees capital and human resources their most important assets. They have spent $17 million last year on IT alone. This year, they plan to spend $30 million. In the subsequent years, $45 and $60 million respectively. But this is merely an estimated amount, which is variable depending on new circumstances. A point to note is that it is not the amount of money spent, but the value-added to the business that counts, and UOB is prudent in its IT expenditure.

The bank began its IT team with about 32 business 50 IT professionals. They do recruitment all year round, and are especially interested in young people who are Internet savvy, or have been involved in IT and e-commerce. Organisation in the IT department is flat, with minimum bureaucracy. They have a highly efficient team, flexible, open to change and seeking change.

Instead of forming an e-bank, DBS will make all its products Internet-capable

DBS does not intend to form a separate e-bank. Instead, it will concentrate on improve its current services in the organisation and make all its products Internet-capable. For large banks like DBS or HSBC of Hong Kong to form a separate standalone e-bank, the risk of cannibalisation outweigh the possible gains.

DBS' strategy is a defensive one, as compared to attacking strategies like OCBC who recently formed their e-bank, finatiQ, and OUB, who will be forming first-e in the third quarter of this year. But all banks need to embrace some IT strategy, and offer some banking services online, or risk losing market share.

But then again, structural differences in Asia compared to the US or UK, may make it harder for e-banks to make an impact. Asian experience with bank runs may make them suspicious of little known e-banks who set up shop. Even with the prospect of better rates may not be a sufficient carrot.

Presently, only Hong Kong has a regulatory framework laid up for e-banks. The Monetary Authority of Singapore is currently working on one. The climate for e-banks is not that popular as yet. If DBS can quickly transform itself into an Internet-capable bank, it can minimise the risk of becoming irrelevant to customers in the future.

Current IT milestones

DBS has been on the Internet since 1995, and was the first to introduce interactive Internet banking in Singapore with innovative security solution 1997. In 1999, they were the first bank to launch the Internet Kiosk with interactive touch screen terminals. They also collaborated with SingTel to offer DBS Mobile Banking and DBS Flash.

Over the last year, the number of DBS' Internet banking customers has increased almost 4 fold to more than 100,000 customers today. In the last twelve months, they have introduced 6 new Internet banking services, launching a new service every other month. The most recent was the introduction of the IPO application service online. The bank currently processes around 800,000 online transactions a month.

Since its launch of the online Electronic Securities Application (ESA) in February this year, more than 10,000 new DBS Internet Banking customers have signed on to benefit from this service

DBS hopes to expand its online customer base to 200,000 by December this year. To do this, they have plans to increase the number of banking services online, introduce investment and insurance related services, as well as to harness mobile technology to reach customers. There will be greater innovative product bundling and customisation of products.

Most of the budget of S$200 million is on retooling the organisation. DBS is focusing on leveraging on developments in high-tech devices and Internet services, building sound technological infrastructure in the organisation and improving customer services, deepening customer relationships and improving delivery channels.

Key challenges

DBS's main challenges are the "nuts and bolts" issues such as streamlining divisions, identifying growth niches, straightening out the newly purchased banks, and aligning the DBS and POSBank managements.

Challenges for Singapore banks

Banks have to maximise the use of technology, create opportunities and cannot afford to be complacent

Judging from the rapid increase in PC penetration, Internet penetration, mobile phone and other wireless hand-held device penetration, there is no way firms are going to survive without embracing an IT strategy of some sort. This is a must-do strategy for all banks, or risk being marginalised.

Online and phone transactions are fast moving from the fringe to the mainstream. Banks have to be willing to invest in technology, harness it and maximise its use and create value-added services to their customers, or risk losing customers to new providers. These "new providers" could be anywhere. Financial institutions from Hong Kong, US or Europe can be offering a range of products and services to Singaporeans. Only national regulatory interference can prevent growth in cross-border transactions in financial services, and even those will erode over time.

Banks have to be regional players

The domestic market is small and saturated. Opportunities are only available outside Singapore. Local banks have to look into the region in order to grow, expand profits and gain market share, especially at such a favourable time as this, where both telecommunications and financial markets are liberalising. They also have to be prepared of increased competition.

HSBC Holdings and Merrill Lynch have set up a US$500 million joint venture in April this year, to create an online supermarket for banking and investment products to target customers outside the US. This new venture will be rolled out to 21 countries in the next four years starting with UK, then Canada, Japan and Germany. Their strategy targets the rapidly-growing market for affluent customers. This move represents one of the more aggressive strategies in capturing the online financial services market. Many financial institutions are expected to move in this direction.

In the Philippines, banking liberalisation laws have been passed to allow new foreign banks to have full ownership of domestic banks, compared to 60% previously. Non-bank foreign individuals and institutions can own up to 40% of banks, a new provision placing foreigners on par with Filipinos. Singapore banks like UOB, DBS and Keppel TatLee have expressed interest in increasing their current stakes in Philippine banks and buying new stakes.

DBS has brought in a new management team, bought banks in Thailand, the Philippines and Hong Kong in addition to a small Indonesian bank they acquired in 1997. They have plans to energise DBS' retail and corporate businesses, and even push into the big league of Investment Banking

Financial supervision

The blurring of institutional and product boundaries has questioned the effectiveness of the existing regulatory structure. Traditional regulations have been structured along sectoral lines, but the challenge ahead is to integrate financial regulation and supervision, aligning the regulatory approach across industries to mirror the convergence of individual markets. It is essential to have a holistic view in supervising financial institutions and markets.

Regulatory frameworks also have to be flexible enough to allow firms to respond to market developments, yet safeguard financial soundness. Regulations have to be kept in pace with market reality and continually update and adapt. Regulators have to work hand in hand with market players to ensure that regulations continue to achieve their ends in a changing environment.

Also, financial products are becoming more complex, and unlicensed service providers can reach customers through new channels like the Internet. At best, regulators can protect consumers by raising consumer awareness and professional standards, but consumers have to play a bigger role now, in taking on a greater responsibility for making their own investment decisions.

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