

## Natural Fit

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Over the past months we have discussed several business opportunities that the Internet provides and ways in which these commercial avenues can be exploited. This month we will investigate the services currently offered by online banks and what the future may hold for the offshore financial industry.

Initially, let me outline and clarify the meaning of online banking. In brief, online banking, home banking, PC banking and cyber-banking are some of the terms used to describe banking via the Internet. Web-based banks and many high street banks are now selling financial products and providing banking services using online channels. Companies can provide an Internet accessible service that allows customers to keep a watchful eye on balances, write electronic cheques to pay bills and transfer money at the click of a mouse button 24 hours a day.

The abundance of modem-equipped PCs in homes and offices offers banks a wealth of opportunities to strengthen customer relationships, to reduce the costs of delivery, to improve customer service and to generate new business opportunities. Online banking presents some major challenges; banks must come to grips with new technologies, new patterns of customer behaviour, and new competitors. Many leading banks are exploiting this communication mechanism and investing in developing electronic infrastructures in the pursuit of their strategic aims. Services tend to be linked to the bank's mainframe computer so the customer can see transactions as soon as they are made. Online banking is usually protected by a number of security layers including encryption algorithms that are internationally recognised and that have been exposed to public scrutiny for several years.

The use of electronic channels is influenced by the mutual demand for alternative banking methods. Consumers may be motivated to use online services because they have gone through negative experiences with the traditional bank manager seated behind an overshadowing desk. Alternatively they may loathe the ubiquitous 'your call is in a queue and your inquiry will be dealt with as soon as possible' phone message or the tiresome waste of their lunch hour waiting in the high street bank. The companies also benefit as the cost of an online transaction is a fraction of the cost of providing the same service through the high street branch. There are an increasing number of Web-based banks that only have 'virtual shop-fronts' and can offer excellent interest rates through the savings they make. Recent estimates suggest that half of all U.S. bank branches will be substituted by electronic banking within the next 10 years.

Online share trading allows investors to buy and sell on the World stock markets without the use of an intermediary dealer. More than 5 million US citizens already use the Internet to execute 30 % of all stock market transactions carried out by individual investors. There is a plethora of sites hosting stock exchange information that provide details of the various markets and advice to

help you reach investment decisions. This is one example of why the online finance industry is currently the biggest success story in e-commerce.

The Isle of Man has a thriving offshore banking sector with subsidiaries of high street banks and smaller private banks offering services to both private and business customers. A fundamental issue associated with the running of an offshore account is the physical separation between bank and customer. Traditionally international transactions have to be done by snail mail although some smaller transactions, e.g. below £10K, may be done by telephone using verbal passwords. Such communication methods are prone to fraud. Using the Internet can overcome these security difficulties and allow transactions to be made 24 hours a day without the quandary of calling a customer in Hawaii and dealing with a 10 hour time difference.

The Bank of Ireland has already created the first offshore Internet bank, Fsharp, ([www.fsharpbank.com](http://www.fsharpbank.com)). This Isle of Man based company went online in September 1999 and is aimed at English speaking people living and working abroad. The services offered include instant and fixed-term deposit accounts in addition to fund management from Mercury Asset Management and independent tax advice from KPMG. This month they are also launching an equity linked deposit account. The potential market size of the British and Irish customers alone is 1.7 million with estimated combined deposits of £25 billion.

It is excellent to see some offshore banks forging ahead, although others are lagging behind; this situation is unlikely to be similar to the tale of the hare and the tortoise. The companies with a foothold in the early days of e-banking are already recouping their investment whereas those banks who see it as a possible venture for the future in their 10-year plan will probably be regretting their decision by 2001. Convergence technologies, the union of computing with home and office communications, are already having wide-ranging consequences throughout the world economy.

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