

THE EVOLUTION OF eBANKING

OVERVIEW

This study looks at:

- ▶ The positive impact of technology on the banking sector in Ireland
- ▶ Recent developments in eBanking
- ▶ How eBanking results in time and cost savings for businesses and customers

The Irish banking industry has been at the forefront in the pioneering of e-related activities. Evidence of this is everywhere from the ATMs in our streets to the increase in use of the Internet. We can now transfer money anywhere in the world with the press of a button.



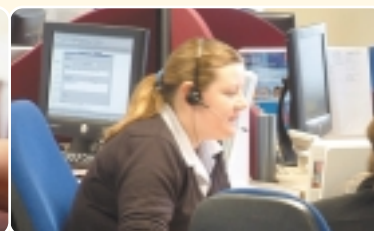
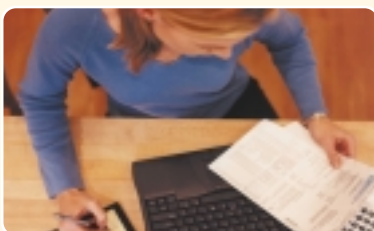
eBANKING FACTS & FIGURES

- ▶ There are more than 2,000 ATMs in the Republic of Ireland (ROI).
- ▶ Almost 120 Laser transactions are performed every minute in Ireland.
- ▶ More than one-in-three Irish consumers own a credit or charge card.
- ▶ In 2003, 1.7m accounts registered for access to telephone banking and 1.1m registered for online access.
- ▶ Mobile phone penetration levels have now surpassed fixed line phone levels for the first time - mobile penetration in Ireland is at 88% with more than 3.5m mobile subscribers.
- ▶ In 2004, Internet penetration levels increased to 46%. An increasing number of Internet users are making online purchases.

The banking industry is facing an increasingly demanding environment as many consumers and businesses become more sophisticated. AIB has been innovative and successful in meeting these needs. AIB has improved customer services by taking advantage of the latest technologies. AIB has taken into consideration the changing needs of its customers and is offering greater access and online facilities. These measures have increased profits for the bank and passed on savings to the customer.

There are four main elements of business that can be influenced by technology: production, personnel, costs and opportunities.

Technology can entirely change the nature of a business. It can result in more efficient production and cost savings. While employees may need specialised training and managers will need to be more effective, new types of business opportunities may evolve generating profit.



AIB WEBSITE

A portal is a gateway to the web – it is any means by which we can access online resources and services. Successful portals focus on specific target groups (segments) with user or customer focused content. Ultimately, these websites must help generate revenue by providing the correct content to the correct audience to sell products and services.

AIB designed and developed www.aib.ie to facilitate its customers' online needs. Because the bank has many different types of customers it has to take each segment of its customer base into consideration when building its website. It must be easy to use and integrated with other AIB services.



Every AIB customer can access their specific banking and information requirements from any computer which is linked to the Internet. They have access to an extensive range of information and services, interactive tools, planners, guides, application forms and financial solutions. AIB meets its customers' changing needs and expectations, by continually developing its online offerings. In many instances, customer feedback received through the site, forms the basis of continued site enhancements.

AIB's website, www.aib.ie, is segmented into three distinct customer channels: *Personal Finance*, *Business* and *Capital Markets*.

1. PERSONAL FINANCE SITE - www.aib.ie/personal

AIB's Personal Finance website is one of Ireland's leading sources of financial information for individuals. Information is organised simply around the main financial events impacting customers, e.g. starting college, buying a house, planning a family's future and considering retirement. Customers have access to online calculators, Internet Banking and helpful articles on areas such as moving home, going to college and investing in shares.



The website also has many application forms, which are popular with customers because of their ease of use. Applications include Internet Banking, Mortgages, Car Loans, Credit Cards, Personal Loans and Travel Insurance.

AIB SITES FOR YOUNG PEOPLE - www.aib.ie/youth

AIB has a series of dedicated Youth Sites for primary, secondary and third level students. For more information, visit www.aib.ie/youth.

▶ AIB *Just for Kids* website encourages kids to have fun and learn about money. It introduces a basic understanding of money and financial concepts to children aged between 7 and 12. For more information, visit www.aib.ie/kids.



▶ AIB *Level 2* website for second level students, introduces students to information on topics such as time management, goal setting, homework etc. *Level 2* also contains regularly updated entertainment reviews and online games. To access the site, visit www.aib.ie/level2. It also links to other AIB student initiatives such as the *National Build a Bank Challenge* and www.skool.ie.

▶ AIB *Students* website for third level students has money management tips, information on grants and tax relief. Also featured are a number of calculators and student-specific product applications. Students can also access AIB Internet Banking. To find out more, visit www.aib.ie/students.

2. BUSINESS WEBSITE - www.aib.ie/business

The AIB Business website is a financial and business resource. It is designed to cater for the needs of the small-to-medium (SME) sized business market in Ireland.



The Business website offers a comprehensive range of practical information and advice for business customers. This information is tailored for each stage of the customers' business cycle, be that a customer who is looking to start their first business, or those looking to improve their management skills, or looking to grow their business.

Its features include:

- ▶ Information and guidance from recognised Irish organisations and government bodies.
- ▶ Wizards and business planners.
- ▶ Business guides from *Starting a Business* to *eEnabling a Business*.
- ▶ iBusiness Banking – enabling customers to monitor accounts and make payments online at www.aib.ie/ibusinessbanking.

3. CAPITAL MARKETS WEBSITE - www.aib.ie/capitalmarkets

The Capital Market brings together all the providers and users of **capital**. AIB has a designated Capital Market website which enables corporate customers to locate the services they require quickly and easily. It contains information on banking services, stock broking services, corporate finance, treasury, international trade, asset management, outsourcing, securities services and careers. It also gives corporate customers the ability to access the iBusiness Banking online service.



BANK CARDS & CASH

Most consumers hold at least one kind of bank card: ATM, Laser or credit card. These cards help facilitate current lifestyle trends of the bank's customers. Cards eliminate the time, effort and expense involved in getting to a bank branch. They can be used outside of bank opening times at ATM machines and in retail outlets. They can also be used abroad.

The total number of paper (includes cash) transactions undertaken in 2003 was 183.7m and the total value of these transactions was €1,416bn. By comparison, the total value of card payments was €11.2bn and the total value of automated payments (standing orders, direct debits, online payments, etc.) was €571.8bn.

In Ireland, we are still excessive users of cash. The circulation of cash continues to grow at an unprecedented rate of 35% – 40% a year. The volume of cash paid out by banks exceeds €20bn per annum. Cash is the most expensive payment instrument for banks and the processing, sourcing and distribution of cash is hugely labour intensive. Electronic payment methods improve efficiency for everyone.

Bank cards offer security, as cardholders do not need to carry cash. Automated transactions are also cheaper than paper transactions. In terms of credit cards issued to adults and usage, Ireland in 2003 had the third highest rate behind Britain and Luxembourg.

ATM cards - In 2003, there were 4.2m ATM cards held in ROI. These were used for 172m withdrawals, valuing €22bn.

Laser cards - In 2003, there were 1.3m Laser cards in circulation. These cards were used for 60m payments, equating to €3.7bn in retail sales. Currently 44% of Laser cardholders use their Laser cards in more than 93 countries.

Credit cards - In 2003, there were 2m credit cards in circulation. These cards were used for 86m payments. The value of these payments in 2003 totalled €7.5bn, up from €5.8bn the previous year. Central Bank figures show that we owe €1.894bn in outstanding personal credit card debt.

NEW SECURITIES

In 2004, card fraud in ROI was estimated to take place to a value of €10m. Most card fraud is either counterfeit fraud or fraud arising from lost or stolen cards. Chip & Pin is a new international initiative backed by banks, card issuers and retailers to cut rising levels of counterfeit and card fraud around the world. The chip on the card means that the card is genuine and the pin ensures that the person presenting the card is the true owner.

As well as combating fraud, Chip & Pin will make payments speedier and will also enable much more sophisticated functionality than the old magnetic strip.



INTERNET & PHONE BANKING

AIB's Personal Internet Banking service www.aib.ie/internetbanking, offers customers a simple means of doing all their banking online, at the click of a mouse. Services available include, balance enquiry, funds transfer, bill payment, loans and savings online. In addition you can top-up your mobile (and register for text services) and trade shares online.

Telephone (1890 242424)	Internet (www.aib.ie/internetbanking)
Self Service IVR	Online
Balance Enquiries Recent Transactions Cheque Search Funds Transfer Bill Payment Statement Request Change Personal Access Code Mobile Top-Up	Balance Enquiries Statement Enquiry Cheque Search Funds Transfer Bill Payment Statement Request Mobile Top-Up Transact Online Loans Online Online Saving Online Share Dealing

From a telephone only perspective there are two main types of service: self service through an Interactive Voice Response (IVR) for the more routine transactions and Customer Service Advisor (CSA) service for more complex services.

These services offer customers increased flexibility to conduct their banking transactions over the phone or online, anytime, anywhere. When customers register with Phone & Internet Banking services they are issued with unique security numbers which ensure that only that customer can access account information.

- ▶ There are approximately 700,000 registered customers of AIB Phone & Internet Banking.
- ▶ In 2004, the IVR handled 12m calls, while the CSA service handled more than 1m calls.
- ▶ On an average day the IVR will handle 45,000 calls
- ▶ Surveys show that customers are very accepting of the IVR service. Satisfaction levels are continuously running in excess of 90%.

ONLINE SECURITY

With Chip & Pin deterring criminals from card fraud, it is likely that there will be more sophisticated attempts at defrauding cardholders online. In some cases fraudsters use computer viruses called Trojans to capture pin numbers. Another common scam is "phishing", where consumers are duped into revealing security details by fake emails claiming to be from their bank or card provider. Banks never ask online customers to key in their full Personal Access Code (PAC). AIB invests heavily in the latest online security measures to protect its customers' details and transactions and alerts users about any known virus in circulation. It is important for all businesses to ensure a high level of customer confidentiality and security.

SHOPPING ONLINE

46% of people in Ireland are Internet users and more and more people are purchasing goods and services online. AIB offers services to protect credit card users against unauthorised use when shopping online. Customers are asked to authenticate a purchase by entering a unique personal password on a secure and fully confidential pop-up screen. The unique personal password ensures that customers can conduct their shopping online securely, anytime, anywhere.

MOBILE TOP-UP

Today, more than 8-in-10 adults own a mobile phone compared to 1999 when ownership levels were approximately 2-in-10. Almost 75% of mobile phones in Ireland are pre-paid and there is an increased usage of prepaid customers under 25 years of age.



There are now four ways for AIB customers to top-up their mobile directly from their AIB Bank Accounts; by text, ATM, phone and Internet. Statistics show that ATMs are the most popular way to top-up, closely followed by

Phone & Internet. However, the top-up by text message channel is growing significantly.

This choice of top-up channels means that customers can top-up when, where and how they wish. It also offers an extra element of reassurance for parents topping-up their child's phone, particularly for young people travelling abroad or living away from home.

CONCLUSION

Despite this evolution towards eBanking, banks still operated 853 branches and sub-offices in ROI in 2003. This number remains consistent throughout the last decade. Ireland had 287 bank branches per 1 million inhabitants in 2002.

Many Irish customers are slow to change their banking habits however and seem to want to retain older traditional systems in parallel with newer systems. The retention of older systems is expensive both in terms of cost and resources and makes it difficult to put additional resources into future development.

Ireland is well positioned for further development however, having a young, well educated, technologically aware population and a growth economy.

GLOSSARY

Capital: This can come in many forms e.g. liquid capital, fixed capital, circulating capital, social capital. All types of capital are valued and can be exchanged using money. The economic return on capital is interest.

ACTIVITY

Go to www.aib.ie

Click on "Starting your own business" in the "Business home" section in the middle of the page. In the "Tools for your business" section, click on the different wizards to see how AIB helps entrepreneurs.

Next click on "Personal Finance".

- Find out the current interest rates that AIB gives to savers and charges borrowers.
- Find out how much bank charges are for each transaction.
- Explain how "Chip & Pin" work.
- In the "Holidays and Travel" section, find out how you can bring money abroad when you travel.
- In the "House and Home" section, find out the current mortgage rates available at AIB for fixed and variable mortgages.
- Use the mortgage calculator to find out the monthly repayments over 20, 25, 30 and 35 years for a mortgage of €350,000.
- In the "Car Centre", find out how much the monthly repayments will be for a car loan of €20,000 over 3, 4 and 5 years.

FIND OUT MORE

- Click on the website www.aib.ie



While every effort has been made to ensure the accuracy of information contained in this case study, no liability shall attach to either The Irish Times Ltd. or Woodgrange Technologies Ltd. for any errors or omissions in this case study.