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improvements online, banks still haven't "cracked" the online space.

"The issue with online marketing from financial services is it's still very Web 1.0 and it's very department store-type marketing, there's a lot of display, a lot of banners," he said.

"That actually reinforces the point that you can easily price shop online. What the industry hasn't cracked is a genuinely interesting or differentiated brand experience online."

Vic Wolff, executive director, marketing and communications, ING Direct, said enhancing a bank's website was a problem in itself.

"I don't want to clutter websites," he said.

"It [a website] has to be transparent, simple, and contain not too much information. The consumer gets enough information anyway and he can go anywhere to get anything he wants.

"Yes, we're following the new technologies, the new trends, but we're pretty keen on keeping it simple and straightforward for the customer." ■

LIXI standards enable efficiencies

While technically not a "new technology", the Lending Industry XML Initiative (LIXI) is leading the way in introducing standards to improve efficiencies in the mortgage sector.

E-Commerce standards have been developed to remove barriers to electronic data exchange within the Australian lending industry. In other words, standardising home-loan information for electronic transfer, thus improving application processing times.

"LIXI can really help in the area of straight-through processing – how do you send information

from the broker to the mortgage originator, to the mortgage manager, to the funder, to the valuer etc in a way the information stays the same all the way through," LIXI chairman John Hearne said.

"We're trying to simplify the language of lending and speed things up between the entities that are involved in each step of a mortgage transaction."

Hearne said the standards came about as a push from the mortgage industry.

"LIXI was formed because there was a group of people that saw the need," he said.

"You get efficiency out of the standards in terms of less rework, being able to do things faster. In the end it delivers a better customer experience and reduces non-productive costs for players in the industry."

And the standards are having an impact in related parts of the financial services industry.

The National Electronic Conveyancing System (NECS) – a Federal Government and industry initiative to build a national electronic system to lodge and settle property transactions – will be based on LIXI standards. ■

NAB, ANZ deliver the bad news

Both National Australia Bank and Australia and New Zealand Banking Group suffered heavy falls in their share price late last month after coming out within days of each other with warnings of bad debt provisions.

NAB delivered the bad news first after it announced it had made an additional \$830 million provision for its exposure to complex credit derivatives.

The amount is on top of a \$181 million provision in the half-year ended March 31.

"This provision reflects the unprecedented conditions in global credit markets and, in particular, the rapid deterioration in the United States housing market," chief executive John Stewart said.

"Earlier this year CDOs were subject to rating agencies' downgrades that also affected thousands of similar investments, at which time appropriate provision was made.

"The continued deterioration in the US housing market has been further highlighted in recent weeks with foreclosures mounting and recovery rates from security in some categories falling to less than half of the loan value.

"Although current losses on the assets underlying the CDOs in our portfolio relating to the provision average approximately 2 per cent of the total portfolio, our detailed analysis and recent default activity indicates the portfolio will continue to deteriorate.

"We believe it is prudent to take a full provision now, based on a worst case scenario."

Stewart defended the bank's original decision to invest in CDOs as part of its securitisation business that was providing its customers with access to international debt markets.

NAB stopped buying this type of asset-backed CDOs in March 2007, Stewart said.

"The CDOs were all rated AAA when liquidity facilities were put in place as part of the establishment of our securitisation business," he said.

"These were sound commercial and credit decisions given the market and ratings data available at the time. The likelihood of default was independently assessed as being extremely small."

On the day NAB shares fell more than 13 per cent, wiping around \$7 billion off the value of

the stock.

However, the bad news for the banking sector did not stop there.

ANZ then informed the market that its profit will drop as much as 25 per cent on bad debts.

Cash earnings per share, which excludes income from derivatives trading, may fall 20 percent to 25 per cent in the 12 months to September 30, ANZ said.

The bank said provisions for bad debts in the current half are set to be about \$1.2 billion, up from \$980 million in the first six months.

"As the deterioration in global credit markets continues and the slowing of the global economy plays out in Australia and in New Zealand, there are flow-on effects for our commercial portfolios and to a lesser extent the personal portfolios," chief executive officer Mike Smith said.

"It is prudent in this difficult environment to continue to take a more conservative approach and further strengthen our balance sheet by increasing our collective provision to a peer-leading level of above 1 per cent of credit risk weighted assets."

ANZ shares fell more than 10

"NAB delivered the bad news first after it announced it had made an additional \$830 million provision for its exposure to complex credit derivatives."

per cent on the news.

To stem the flow of losses across the sector, Westpac said its "small, high quality" CDO portfolio "has experienced no measurable impact on earnings".

"The portfolio (which also includes Collateralised Loan Obligations [CLOs]) is held on balance sheet and is therefore accounted for on a fair value (marked to market) basis," the bank said.

"Westpac continues to manage its risk in a conservative and

prudent manner."

St. George also tried to reassure the market, saying its credit quality is "excellent" and the firm has no exposure to CDOs or US conduits.

Equities economist at CommSec, Savanth Sebastian, said there was a lot of uncertainty in the market at the moment.

"Investors are really unsure of the extent of the credit crisis and its impact on the Australian banks." ■

Banks' bond issuance "strong"

Australian banks have significantly increased their corporate bond issues as a precautionary measure, according to the RBA.

Speaking at the Debt Markets 2008 Summit, Assistant Governor (Financial Markets), Guy Debelle, said the stock of non-government bonds has increased "markedly"

over the past year, with much of this growth being driven by the financial sector.

"Australian banks' bond issuance has been very strong, particularly in the first half of 2008, when issuance totalled \$67 billion, well above the average \$32 billion raised in the same period in

2005–2007," Debelle said.

"The strong bond issuance reflects the re-intermediation that has taken place during the credit market turmoil, with banks undertaking a larger share of financing for the non-government sector. This is evident in the fact that, notwithstanding the strong

financial issuance, total non-government bond issuance has been around average levels over the first half of the year.

"In part, the issuance by the banks has also been precautionary in case the dislocation in credit markets was to worsen. The major banks are generally ahead on

their funding plans: the issuance has been more than enough to meet the banks' asset growth and maturation of existing issues."

This has substituted for the dislocation in asset-backed and corporate bond markets, he added. ■