

## **CHAPTER IV**

### **PRODUCT ANALYSIS AND DELIVERY SERVICES**

#### **4.1 INTRODUCTION**

With the advent of financial liberalisation, the onslaught of competition, as well as rapid technological advancement within the industry, banking institutions have been urged by the Central Bank to be more innovative in their financial products. In order to capture the niche in the market, retail banks must now provide a full range of banking services and tailor their operations to make better use of resources and target products that they can sell to their clients. Recent innovations have been broad ranged, from new mechanical devices to new operational procedures.

The initial set of products which is feasible for Bank of America Malaysia to proceed with the development of a multi-product retail bank in Malaysia would include credit cards, mortgage loans, deposits, personal loans, electronic banking and packaged services for expatriates. Also included in the electronic banking are PC banking and telephone banking, both of which require additional consideration.

The rationale behind the analysis of these products is that there is an emerging middle class in Malaysia of households with significant discretionary

income and an increasing willingness to use financial services. Competitors, such as Citibank, Hongkong Bank and Standard Chartered Bank, have demonstrated the ability to succeed in retail banking in Malaysia. Entry at this time provides Bank of America Malaysia the opportunity to take a partial share of the market as it expands.

## **4.2 CREDIT CARDS**

### ***Product Description***

Malaysia has a well developed credit card industry with secondary features such as banks, hotel links and credit insurance. Cards will be issued for 1 year terms and renewable thereafter on an annual basis. Credit limit is to be established on an individual basis. Cards will be used to purchase household durables, for travel and entertainment, and for cash withdrawal facility subject to predetermined limits. Billing will be monthly with interest calculated at 1.5 % per month on balances outstanding beyond 20 days of billing date. Fees are to be charged on a per card basis for membership (one-time) and annual subscriptions. Add-on cards are permitted with billing to the original cardholder with a fee.

### ***Current Status***

Bank of America Malaysia is not currently offering this product. A retail version of the product is believed viable in providing additional business and diversity to Bank of America Malaysia's retail base.

### ***Size***

Estimate of the current number of credit card holders ranges from 800,000 - 1,200,000.

### ***Growth Rate***

The credit card market is a growth market as more Malaysians meet Bank Negara income requirements for credit card ownership. It is reasonable to think it will at least keep pace with the overall growth in the economy (average 8 % per annum growth in GDP). Other forces such as deeper market penetration and changes in consumer buying behaviour could push credit card growth faster.

### ***Regulations***

Foreign institutions issuing credit cards do not face the discriminating regulations that they experience in other sectors (e.g., the one-branch restriction). There are no indications that Bank Negara will change the criterion for credit card membership. The current criterion of RM2,000 minimum monthly income and minimum age of 21 years should remain in place. It also sets the minimum amount to be paid at 10 % of the outstanding balance. Interviews with Bank Negara officials suggested that they may raise the limit at some point to control inflation.

### ***Target Population***

Malaysians earning more than RM2,000 per month who meet the bank's credit criteria and who value the efficient, high quality service offered by Bank of America

Malaysia. Initial penetration will be limited to Kuala Lumpur, with gradual expansion to other cities like Penang and Johor Bahru. There are no credit card bureaus in Malaysia (unlike some countries, they have National Credit Card Centre) and therefore there is no way to check credit histories. With GDP growth expected to increase personal income, the credit card industry has promising potential. This growth in consumer demand will probably be segmented; demand of the medium and upper income classes will grow at a higher rate than that of the lower income class.

### ***Penetration***

Bank of America can distribute credit card applications through the same channels it uses in other countries --- displays in restaurants, hotels, and other establishments that honour credit cards; advertisement in print and electronic media; distribution in universities; and other common channels.

### ***Pricing Tiers***

Public Bank charges an annual fee of RM75 for a Visa and RM150 for a gold Visa (plus a RM100 joining fee for the gold Visa). Standard Chartered Bank charges RM60 for a classic Visa or Mastercard and RM150 for a gold Visa or Mastercard. Fees for other credit cards are generally in this range.

### ***Spreads***

Virtually all banks charge a fixed fee of 3 % on all cash withdrawals and a finance

charge of between 1.5 % to 2 % per month on a daily basis on any outstanding amount until full payment is received. The 18 % to 24 % per annum finance charge is considerably high and is profitable to the banks.

### ***Competition***

There are a variety of credit cards such as Visa and Mastercard (direct and through member banks) and Diners Club International. Card issuing banks are Bank Bumiputra, Bank Simpanan Nasional, Citibank, D & C Bank, Hongkong Bank, Maybank, OCBC, Public Bank, Southern Bank, Standard Chartered Bank, UMBC, and UOB Malaysia. These banks issue standard and premium cards. Of the current customer base, Citibank holds the largest market share at approximately 17 %. Standard Chartered holds 10 % market share while Public Bank is at roughly 5 %. D & C Bank has around 10,000 card members and they expect this number to double by 1995 as they intend to grow their credit card business aggressively.

### ***Key Success Factors***

Credit cards in Malaysia, as elsewhere are virtually interchangeable with regard to product characteristics. Bank of America Malaysia can gain market share by differentiating itself with the prestige of having a credit card issued by a foreign bank, perception of credit merchant acceptance abroad because the issuing organisation is a foreign bank, innovative or superior tie-ins with hotels and other businesses, and free gifts.

### ***Bank of America Malaysia***

- Strong parent support with large card operations in the US.
- Extensive international branch network.
- Experience in retail credit.
- Good credit control.
- Advanced technology support.

### ***Industry***

- Spending power is expected to remain high.
- Low unemployment rate and high wages.
- Large marketing/advertising budget.
- An effective marketing strategy is critical to gaining market share.

### ***Issues***

- Merchant acceptance of cards is low compared to other Asia Pacific countries (Malaysia 20,000 acceptance points versus Australia 30,000).
- More banks and finance companies are entering this business.
- Card product penetration in Malaysia is still quite low compared to other countries.
- Frauds and counterfeit.
- Loan loss is higher than other consumer loans.

### **4.3 MORTGAGES**

#### ***Product Description***

The housing market is vigorous in Malaysia. Demand exceeds supply, especially in Klang Valley, Penang, and Johor Bahru. New housing launches often sell all units in two days or less. Home mortgages are a good opportunity for Bank of America Malaysia since they can be sold outside the branches at housing developments.

Government policies in 1994 have served to promote home ownership. The 1994 Federal budget stimulates demand for housing, real estate investments, and the property market as a whole. The tax cuts on building materials and equipments have helped lower construction costs in real terms. The 1994 budget has made available RM300 million to developers for low cost housing and has allocated larger spending on infrastructure relative to 1993.

Klang Valley, Penang, and Johor Bahru are areas bustling with economic activities. The housing markets in these areas continue to show signs of strong growth as overall demand, particularly in conventional housing, continues to rise.

In Kuala Lumpur, the residential market as a whole is stable with prices remaining the same as in the previous two years. Terrace houses in the RM150,000 - RM250,000 price range located in good housing schemes continue to be in demand. Detached houses in exclusive areas such as Damansara Heights and Bukit Tunku

continue to appeal to the upscale market with prices remaining stable or showing some increases. Medium price condominiums (RM95,000 - RM250,000) have performed better than upmarket condominiums (RM250,000 - RM350,000).

In Penang, the market for landed properties and apartments costing less than RM220,000 was fairly active in 1993. Terraced houses were sold in the RM250,000 - RM350,000 range while detached houses were sold in the half million to RM2.25 million price range. As Penang establishes itself for both the northern region and the Northern Growth Triangle, development activity in the housing sector will continue to be active.

Demand for low cost housing continues to exceed supply. The bankers we interviewed reported that their housing loans have a low default rate (e.g., Deutsche Bank has a fallout of less than 1 %). The trend in low cost housing should continue in the next three years because the population of Malaysia is relatively young, and because the government will continue to consider low cost housing a priority sector.

#### ***Current Status***

Bank of America Malaysia is currently selling this product on a limited basis to individuals with satisfactory results. No serious attempt has been made to introduce this product to consumers.

### *Size*

**Table 4.1    Total Mortgage Loans Extended By Commercial Banks  
And Finance Companies  
(excludes mortgages sold to Cagamas Berhad)**

	(RM Billion)				
	1990	1992	1993	1994 June	2000 (ests)
Commercial Banks	9.6	12.2	14.5	14.6	23.2
Finance Companies	-	-	6.0	6.3	9.6

Source : Bank Negara Malaysia.

### *Growth Rate*

Estimated at 10 % - 15 % per annum. From 1989 to June 1993, housing loans from commercial banks grew at an annual average rate of 16.4 %. For finance companies, this figure was 22.2 % per annum.

### *Regulations*

Bank Negara issued guidelines for mortgage loans for houses costing RM100,000 or less. They set the minimum number of these units to be financed by all commercial banks at 75,000 with a commitment value of RM4.5 billion by March 1994. These guidelines differ on a bank by bank basis. Bank Negara also solicited banks to contribute money towards a RM1.4 billion low cost housing development fund. These

policies regarding low cost housing should continue in the next several years as low cost housing will continue to be a priority sector for the Malaysian government.

Non-citizens or foreign companies are required to adhere to guidelines on property ownership set by the Foreign Investment Committee. These guidelines include percentage of ownership in a property, period of resale, and financing. Individual foreigners and non-residential controlled companies are advised to bring in funds from abroad or offshore loans for financing purposes.

#### ***Target Population***

500,000 households.

The growth for personal incomes should provide greater buying opportunities for potential buyers of houses in both the RM70,000 - RM200,000 and the above RM200,000 segments of the housing market. Developers and housing agents active in these segments are the ideal partners for mortgage lenders.

#### ***Penetration***

Penetration to the target market could be through various means like direct selling, referrals, and advertising. Referrals come through property developers for new properties, real estate agencies on existing properties, advertising, and corporate relationships. Direct walk-in customers who meet the bank's credit criteria would also be welcomed.

Mortgage financing could also be done via a bridge financier for a property developer which opens up opportunities for end-user financing. In addition, to offer tailor-made preferential programmes to specific target groups and corporations as a service to their employees.

### ***Pricing Tiers***

Housing loans are perceived as a commodity product in the Malaysian market. There is little differentiation in products, and price seems to be the primary factor in customer choice.

Depending on the cost of the property being purchased, the spread over the Base Lending Rate (BLR) ranges from 0.25 % to 3 %. Adjustable rate mortgages pegged to the BLR are common and are generally preferred by the public to fixed rate mortgages. The BLR is considered volatile.

Generally, 80 % to 90 % of the property value can be financed through mortgage loans. The common loan term is 20 to 25 years.

### ***Spreads***

The average spread for the majority of mortgage products are 3% over the BLR.

### ***Competition***

All domestic banks (23) and a few foreign banks offer housing loan facilities.

Citibank appears to have the largest market share in home mortgages. Citibank's Mortgage Power, which includes revolving home equity credit and an overdraft feature is the market leader. Their key success factors include intense advertising campaigns, and good partnerships with real estate developers. Their loan agents are on-site during the launching of phased developments of housing to offer Mortgage Power to borrowers. These agents often times remain at the site even after all units have been sold in hopes of reaching potential future borrowers. In late 1993, Citibank offered a refinancing package using Mortgage Power.

Other major competitors include Maybank (MaxiHome Loan), Hongkong Bank and Standard Chartered Bank. Most banks' mortgage products use a spread (about 3 %) over the BLR for the interest rate. Standard Chartered's product is pegged to the bank's 12-month Fixed Deposit rate so that borrowers have a fixed interest rate every twelve months for the life of the loan.

#### ***Key Success Factors***

- Need to establish good business relations with property developers and real estate agents.
- Need to effectively market the mortgage product to corporate clients as part of a package available to their employees.
- Loan agents need to provide good service and short approval periods for loans.
- Good control over credit quality and processing systems.
- Mortgage product packaging should be innovative, e.g., home equity loan,

overdraft feature, fixed versus variable rate, free home insurance, favourable pricing, etc.

### ***Issues***

***Market Situation*** : The Malaysian residential market has been very active with continuous upswing in prices since 1985. Towards the end of 1991, property prices escalated at an overall 30 % increase. The prices had stabilised in the past 2 years, but demand continues to be high.

***Foreclosure*** : Long legal process to foreclose property usually take 6 - 12 months.

***Regulatory*** : Bank Negara will continue to monitor the market development. In order to stabilise the market, authorised institutions have been urged to maintain their prudent lending policies, restricting lending limit to 80 %.

## ***4.4 DEPOSITS***

### ***Product Description***

***Savings*** --- Accounts in Malaysia called "savings" are structured like interest bearing checking accounts in the US. These accounts are the primary transaction accounts for individuals and corporations. Bank of America Malaysia currently offer saving accounts with no service charges or transaction charges and requires a RM10,000 opening balance. No over draft facility is allowed.

***Current*** --- Non-interest bearing checking account, used primarily by businesses rather than individuals at this time. Bank of America Malaysia currently offer checking accounts with free cheque books, names printed, no service charges and minimal transaction charges. Minimum balance of RM10,000 is required at all times.

***Time Certificates of Deposits (TCD)*** --- TCD are fixed rate deposits with a minimum term of 1 month or a 3-monthly basis. Interest is payable on the expiry of TCD. Rates are not regulated by Bank Negara. Premature encashment will forfeit the interest payable.

#### ***Current Status***

Bank of America Malaysia does offer these products. To date, most portfolio money has come from expatriates, corporations, and other wholesale providers of funds.

#### ***Structure***

Of the total deposits with commercial banks in 1993,

<b>Current Account</b>	<b>18 %</b>
<b>Fixed Deposits</b>	<b>54 %</b>
<b>Savings</b>	<b>13 %</b>
<b>Negotiable Certificate of Deposits</b>	<b>9 %</b>
<b>Others</b>	<b>6 %</b>

### ***Size***

**Table 4.2 Deposits With Commercial Banks In Malaysia**

	(RM Billion)					
	1990	%	1992	%	June 1993	%
Domestic Banks	62.0	75.3	87.3	77.6	91.4	75.5
Foreign Banks	20.3	24.7	25.2	22.4	29.6	24.5

Source : Bank Negara Malaysia.

### ***Growth Rate***

Commercial banks deposits have been growing at a fast pace (between 8 % and 25 % annually) for the last 6 years. As long as the Malaysian economy keeps its steady growth trend, commercial bank deposits will continue to be a growing area.

There are 3 ATM networks --- ABC (Maybank Group), GREAT and MEPS. The 3 are currently not linked. MEPS is used by most commercial banks while GREAT consists of small banks and finance companies.

Banking in Malaysia is less automated than in other countries. Approximately 70 % of deposit transactions are done at the branches while the other 30 % are done on ATMs.

### ***Regulations***

There are no special regulations in term of deposits.

### ***Target Population***

The importance of product segmentation is apparent as banks are offering special features for different deposit products like special savings accounts for children, senior citizens, and professionals.

With the one-branch limitation that Bank of America Malaysia has, they cannot position themselves as a volume deposit taker. They should expand their net-worth customer base and offer custom-made packages including deposits.

### ***Penetration***

The mass deposit market is dominated by banks. High net-worth individuals and professionals may opt for foreign banks.

### ***Competition***

Of all commercial bank deposits, 75 % are in domestic banks. All commercial banks and finance companies compete in this sector. Other deposit taking institutions like cooperatives, trust funds, etc. are also competing for the same market.

Banks with the largest deposit shares as at December 1991 are shown in Table 4.3.

**Table 4.3 Banks With The Largest Deposit Shares (as at December 1991)**

Domestic Bank		Foreign Bank	
Maybank	24.0 %	Hongkong Bank	4.3 %
Bank Bumiputra	15.3 %	Standard Chartered Bank	3.8 %
Public Bank	8.3 %	Citibank	1.7 %
UMBC	6.3 %	Bank of America Malaysia	0.5 %

Source : Bank Negara Malaysia.

#### ***Key Success Factors***

- Deposit volume is dependent on branch/ATM network and convenience. Solidity, strength, and image of bank are important in deposit decisions. Could combine with other retail products such as credit cards, cheques, and loans.
- Positioning strategies are important. Depending on the strategy, a bank can be perceived as a selective deposit taker for higher net-worth individuals, or as a popular deposit taker with no minimum deposit amount.
- Importance of product segmentation and design. Design different product features and packages suitable to the target segment --- children, professionals, senior citizen, etc. Personalised and high quality service are important features.

### ***Issues***

- Local currency deposit shifting to foreign currency with Bank Negara lifting its restriction on foreign currency deposit.
- Future competition on offering high interest rates.

## ***4.5 PACKAGED SERVICES FOR EXPATRIATES***

### ***Product Description***

Bank of America can provide a package of services to foreign nationals working for multinational firms, especially US based corporations. In addition to basic services such as current accounts, savings accounts, and others, the package can also include personal loans for automobile or other purchases. By asking the employer companies to guarantee these loans and by holding title certificates as collateral, Bank of America Malaysia can offer services to expatriates that it cannot offer to Malaysians due to Bank Negara regulations.

### ***Current Status***

Bank of America Malaysia is not currently offering this product.

### ***Growth Rate***

The growth rate of this market is expected to parallel that of the economy. Since Malaysia has managed to sustain high growth in the face of global recession, this market is estimated to grow at least 8 % per year.

### ***Regulations***

This market is attractive because it permits Bank of America Malaysia to serve an affluent market with services that it cannot provide to Malaysians, due to Bank Negara regulations. Technically, these loans would be unsecured personal loans although Bank of America Malaysia can pursue alternative arrangements with employers to secure the loan.

### ***Target Population***

Expatriates working for foreign firms, with a desire for convenient banking services arranged by their employers.

### ***Penetration***

Bank of America Malaysia can negotiate a menu of services with employers and charge fees. It can sell services through the regular employee communication channels. New employees, for example, would receive information about services from Bank of America Malaysia along with other introductory information.

### ***Pricing Tiers***

Bank of America Malaysia can negotiate prices with individual firms, but the spreads would be similar to those offered to individual customers.

### ***Competition***

The advertising by foreign banks of loan products catered towards expatriates are

either low key or virtually non-existent. This is because Bank Negara discourages preferential treatment for foreigners. Although there is no public knowledge of foreign banks offering such products, we are aware that certain banks (such as Deutsche Bank) may provide these products on a sporadic basis.

### ***Key Success Factors***

- Cooperative relationships with employers and the ability to persuade employers that packaged banking services are valuable and convenient for employees.
- A menu of products that serve the needs of expatriates. Interviews with potential customers will be necessary to determine their needs and also high quality customer service.
- Convenient banking services with large international network.

## **4.6 PERSONAL LOANS**

**Table 4.4 Personal Loan : Consumption Credit**

	(RM Billion)				
	1990	1992	1993	1994 June	2000 (est.)
Commercial Banks	1.9	2.8	3.8	4.3	75.7
Finance Companies	9.7	14.3	15.7	16.1	21.6

Source : Bank Negara Malaysia.

Consumption credit covers individual loans that were not used for housing purposes and for the purchase of stocks or shares.

***Current Status***

Bank of America Malaysia is not currently offering this product.

***Growth Rate***

Estimated at 10 % - 15 % per annum.

***Regulations***

In March 1992, Bank Negara issued a lending guideline for all commercial banks and finance companies to extend at least 20 % of their total outstanding loan base (as at December 31, 1991) to the Bumiputera community. As of end 1993, performance by banks and finance companies indicated that compliance with this guideline was satisfactory.

In 1993, another guideline was issued wherein under the Credit Guarantee Corporation Malaysia Berhad (CGC), commercial banks are required to extend at least RM80 million of guarantee covers of which at least RM40 million must be to Bumiputera borrowers. Compliance by banks with this guideline has been poor as of end 1993.

### ***Target Population***

200,000 households.

### ***Penetration***

This high net-worth customers should be the target market. Penetration are mainly by advertising and cross selling.

### ***Pricing Tiers***

Secured and unsecured loan pricing tiers. In general, at 4% above the BLR.

### ***Spreads***

Estimated at 4 % above the cost of funds.

### ***Competition***

Some local banks and most of the finance companies. Major players are Maybank, Bank of Commerce, Bank Bumiputra, Arab-Malaysian Finance, and Mayban Finance.

### ***Key Success Factors***

- Properly managed personal loans is regarded as the smarter way of contemporary personal financial management.
- Easy to apply and short turnaround time.
- Higher loan amount and relatively low interest rate.

- Pricing is relatively unimportant as most borrowers are paying 10 % or more to borrow from credit organisations.
- Flexible repayment terms.
- Good control over credit quality.

#### ***Issues***

- High competition as more banks and finance companies are entering into the market.
- No central credit bureau and lack of credit checking system on individuals.

### ***4.7 DELIVERY SERVICES : UPSCALE BANKING***

#### ***Market Situation***

The Bank of America Kuala Lumpur branch's ongoing concept of preferred banking has been readily accepted by its customers. The high quality of customer service focusing on convenience and personalised character has been well received.

Hongkong Bank, Standard Chartered and domestic banks have dominated the middle class and mass market but not the upscale market.

Citibank, Deutsche Bank, and ABN-AMRO offer preferred banking services to their high net-worth customers (common criteria of RM100,000 in deposits). Citibank targets middle and upscale customers and offer them innovative

home-related credit products, credit cards, high quality customer service, and convenience through mail and telephone banking. Although Citibank prices are higher than competition, customers are willing to pay more for a better level of service and for the prestige associated with being a Citibank customer. Deutsche Bank offers normal deposits, current accounts, overdraft facility, and supplements these with investment banking services.

A potential issue is the acceptance of preferred banking services by the Malaysian culture, where customers appreciate fast service and being recognised by the bank. Several banks have not launched these types of services with the rationale that not all members of the affluent sector of Malaysian society are comfortable with flaunting their wealth in a plush environment.

### ***Competition***

In addition to the above, criteria vary for preferred banking customers. Public Bank requires a minimum of RM100,000 in deposits while Standard Chartered also requires a minimum RM100,000 in deposits, but is focussing on individuals with USD500,000 in liquid net-worth.

### ***Options***

Compete for high income/high net-worth market by providing high level of service and a range of consumer products.

Expand Bank of America Malaysia "Preferred Banking" office to actively solicit more accounts. Leverage Bank of America expertise with home-related credit products and effectively package consumer loans at competitive rates for the high net-worth customers.

#### ***Next Steps***

Perform a market research to ascertain market tiers, identify target market and determine preferred service and product needs; study on what types of services preferred customers want from the bank.

Define acceptable standards and criteria for upscale banking customers, and to obtain market information on credit experience. Research into legal environment to determine effectiveness of legal protection to lenders.

#### ***4.8 DELIVERY SERVICES : NON-BRANCH ALTERNATIVES***

Given the one-branch restriction under which Bank of America Malaysia currently operates in the Malaysian market, finding appropriate non-branch delivery mechanisms seems to be a key factor for success if the bank decides to expand its retail operations.

At the international level, over the last few years there has been a growing importance of alternatives delivery systems. Non-branch transactions like ATMs,

telephones and PC banking account for growing retail volumes. In the US, non-branch transactions account for 57 % of total retail volume, with ATMs at 31 %, telephone at 24 %, PCs 2 % while branches account for 43 %.

ATMs are probably the most popular alternative delivery system. Some key information include the followings :

- Since the mid-80s ATMs have provided a higher limit for cash withdrawals as well as expanded the range of services offered after banking hours.
- The number of ATMs has increased from 1,027 units at the end of 1989 to 1,556 units at the end of 1993.
- There are 3 shared ATM networks (ABC, MEPS & GREAT) for local banks. Foreign banks are allowed to have ATMs only within their premises.
- Under the present regulatory system, all foreign banks, including Bank of America Malaysia, are restricted from opening any additional ATMs as the latter constitutes additional branches of the bank.

In the product analysis of this report, the writer does recommend some preliminary delivery mechanisms for each product. Here, we will focus on one aspect which is becoming increasingly important in retail banking and which could become a competitive advantage for Bank of America Malaysia --- **HOME BANKING.**

Home Banking is defined as a banking service that allows retail customers to manipulate their accounts directly by using two distinct end-user technologies --- touch-tone telephones and personal computers. Home banking directly responds to the customers' definition of convenience.

*Time convenience.* Consumers are rejecting the concept of business hours and are beginning to demand access to information, transactions and service when it is convenient for them, not just when it is convenient for the provider.

*The "how" of banking.* Recent technological developments have expanded the list of devices available to consumers for getting information and conducting transactions.

*Location.* Even though a branch network would be the first criteria here, home banking can expand the location concept as cellular telephones and PCs allow consumers to have access to products and services when they need them, regardless of where they are at the time.

#### **4.8.1 Telephone Banking**

##### ***Definition***

Telephone banking refers to transactions performed by dialling a touch-tone telephone that is connected to an automated system at the bank.

### ***Usage***

Common automated telephone transactions include checking balances, transferring funds between accounts, and paying bills.

A vast majority of consumers prefer the telephone over the PC as it is less complicated to use, significantly cheaper, and more accessible. Moreover, there are virtually no special equipment requirements.

### ***Cost***

***Customer :*** End-user requirements for telephone voice response technology are basic. All that is needed is a touch-tone telephone, an outgoing telephone line, and a bank ATM card ID number. Additionally, banks generally charge up to RM2.50 per call and on a monthly charge.

***Bank :*** Banks must configure several distinct hardware and software systems. Voice response systems can cost as little as RM80,000 and can be run on a conventional PC.

### ***Competition***

Some well established domestic banks and foreign banks are providing telephone banking services; and several software companies have been opened to provide telephone banking software to banks.

Major players providing telephone banking are Citibank, Hongkong Bank, Standard Chartered, Maybank, and Chung Khiaw Bank. Citibank is the leader in Malaysia in telephone banking, thereby offsetting the lack of branches by expanding access. This allows the bank to increase its distribution at a lower cost and at the same time provide another link to its global network, reinforcing its innovative image.

The Citiphone Banking Service, introduced in 1987 as an enquiring service, can perform 80 % of the bank's banking transactions. These include transactions which require approval such as an increase in credit limit of Citibank's Visa and Mastercard, arrangement for a housing loan and a small temporary overdraft, as well as renewal for Citibank's Time Deposit. The number of subscribers to the service jumped from the initial 6,000 to 120,000. Prior to this service, Citibank's customer base was 60,000 versus 200,000 today. The system receives about 130,000 calls per month, or an average 4,000 per day. The 24 hour service employs 45 people. Bank officers are empowered to authorise on the spot approvals including temporary personal overdraft, new account opening as well as emergency credit line extensions for credit card customers.

Maybank and Standard Chartered Bank also offer extensive 24 hour telephone banking services. Maybank Autophone even offers the possibility of settling bills for telephone, water, electricity, insurance premiums, club subscriptions, credit card, and monthly loan commitment.

### ***Options***

**Bank of America Malaysia can compete for retail market share by offering telephone banking services. Bank of America can leverage the expertise of West Coast headquarters to develop a system to support telephone banking capability and improve on Citibank and other commercial bank services offerings.**

**Services provided under the telephone banking facility :**

- Balance enquiry - Savings, Current, Loan, Fixed Deposit.**
- Funds transfer between accounts.**
- Chequebook/Statement/Loan Repayment Schedule request.**
- Rate enquiry.**
- PIN change.- Information on products and services.**
- Buy and sell of foreign currencies.**
- Fixed Deposit - Placement, Renewal, Uplift.**

### ***Next Steps***

**Telephone banking is an area of opportunity for Bank of America Malaysia due to its ease of use, lower cost, and greater accessibility for the customer compared to PCs. Hence, Bank of America Malaysia should consider offering this service aggressively to its customer.**

**The bill payment options available through telephone banking are specially attractive in Malaysia. This we believe, is an underbanked market with a strong**

potential. Bank of America Malaysia should include this feature in its portfolio of services. On the other hand, PC banking is still at an early stage and does not seem to offer much interest at this moment.

Determine the value of telephone banking towards Bank of America Malaysia's desired product offerings. Is it complementary ? It is also necessary to review regulations for any restriction or limitation, identify business requirements for development and implementation of service.

#### ***4.8.2 PC Banking***

##### ***Definition***

Banks offer PC home banking either through a direct link to the bank or through an on-line service that is linked to the bank. PC home banking started in the early 1980s in the United States, and although many major banks have experimented with it, there have never been more than 150,000 subscribers.

##### ***Usage***

The main use for customer is for checking account balances, transferring funds, writing electronics cheque, and paying bills.

##### ***Cost***

Customers usually spend about RM3,000 - RM10,000 in equipment and applications.

They must also pay network installation and usage fees as well as bank processing charges. Bank of America in the US has introduced a basic computer service for USD14 a month with an additional USD5 charge for an electronic cheque book feature.

### ***PC Banking Today***

Efforts in the mid-80s to introduce computer banking failed due to high costs and to a failure in generating customer interest. Today, technology is less expensive and more user-friendly and technological alliances among telephone, cable TV and personal computer companies are making interactive services more approachable.

Computer banking and bill paying services often are included in on-line services, but fewer than 400,000 people nationwide have tried them. Several significant barriers stand in the way of widespread growth, including cost and reluctance of most businesses to accept direct electronic payments.

### ***Next Steps***

We believe that PC banking does not seem yet a viable option for Malaysia, even though it is worth further investigation given Bank of America's leadership in this sector. Even in the US, where PC usage is more widespread and sophisticated, the future of this service is yet uncertain.

#### **4.9 ALTERNATIVES**

Share financing is an overdraft line which is secured by the pledge of marketable securities. Securities are held by the bank with blank-signed transfer deeds as collateral to be liquidated to repay loan, if necessary. Adequate margin is maintained on the instruments to ensure that the value of collateral is sufficient to repay principal with interest and to provide for any depletion in value.

The loan-to-value ratios vary by type of security, ranging from 50 % to 75 % market value for equities. Interest is calculated on daily outstandings and debited from checking account. An annual fee is charged to renew the credit line.

Most active investors maintain a large quantity of gilt-edged securities as passive stocks. These stocks are rarely traded since they represent family wealth and are maintained for their dividend income. Investors will pledge these stocks and use the overdraft to buy equities that are expected to increase in value. This provides an alternative source of funding to the investors. Borrowing from bank would be at the average of 3 % to 4 % above the BLR.

The potential business in share financing could be seen from the total funds raised through the securities market, that is from RM1.8 billion in 1988 to RM4.1 billion in 1992 but it moderated to RM2.2 billion in 1993. Equity growth rate is estimated at 20 % per year with new issues being oversubscribed in the initial

offerings.

Citibank was the first to brand and actively retail this product. Other foreign banks retailing this product are Chung Khiaw Bank and UOB Bank.

In meeting the challenges of competition in the banking system, commercial banks have gone a step further by offering cash managements accounts. By opening a cash management account, a current account which falls below its base amount will automatically be topped up by sweeping funds from the savings account. Furthermore, a current account with a balance exceeding RM1,000 will automatically bear interest. This is done by sweeping the excess in the current account into the savings account. The interest earned is usually more attractive than the traditional savings deposit interest rate and in some cases, the rates offered are multi-tiered. As for Bank of America Malaysia, it needs to increase this amount to be equivalent with its current account minimum balance requirement of RM10,000. RM1,000 is the minimum balance requirement by most local banks.