FINANCIAL REVIEW

HD **Banks go techno in race to stay relevant**

WC 1,304 words
PD 6 December 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 56
LA English

LP

Chanticleer

There was a time not too long ago when the banks had all the leverage. Major branches were often housed in ornate and often intimidating buildings where glass or metal bars kept customers at arm's length. You had to go to them and opening hours were limited. The idea of making transactions via a hole in a wall or a mobile phone was something out of science fiction.

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Westpac on Friday launched a fingerprint sign-in for its smartphone banking application which it is claiming as a world first. The technology means you can sign into your account on an Apple or Samsung phone using a fingerprint sensor.

It is just one of a wave of new products coming out of the innovation laboratories of the major banks as they race to stay ahead of the technology game.

Snapping at their heels are the nimble start-ups which are threatening their dominance in everything from wealth management to insurance.

Technology will be a key feature of the final report of the government's financial services inquiry out this Sunday.

The big ticket issue is an expected increase in the amount of capital the major banks have to hold on their balance sheet for a rainy day.

Changes to superannuation fees and a potential crackdown on leveraged property investment inside self-managed super funds are other key issues.

Analysts expect the major banks may have to raise up to $40 **billion** to meet more stringent capital requirements at a time when there is no clear and present danger to the existing system. One senior executive notes Australia is the only country in the world conducting a financial system inquiry even though its banking system was one of the few unscathed the financial crisis.

The big question is will the banks re-price their products to compensate? Bankers say if this happens it will be like getting a rate rise without an official rate rise. Banks can also raise capital but will probably do so in a low-key way, such as through dividend reinvestment plans.

Either way, it adds to the challenges facing the banking industry when the noise around potential disruptors is rising.

The threat to traditional banking platforms from start-ups was on show this week when James Packer and Ryan Stokes threw their weight behind peer-to-peer lender SocietyOne.

While the emphasis on the Murray inquiry findings will be on capital, the impact of technological change will have a greater impact on the big four in the long term. The big banks know this and are responding, but like any large organisations they can take too long to react. Commonwealth Bank of Australia was the latest bank to launch an innovation centre in October, an ideas "incubator" where teams with coaches work new smartphone apps or ways to make banking more efficient.

Like the media, the emphasis for banks is now on mobile platforms. This is changing, particularly at CBA and Westpac, but it may not be fast enough to fend off the disruptors. As one consultant says, it took Facebook three years to accumulate 50 million customers when it was starting out but more recently it took the computer game Angry Birds 15 days to get 50 million users.

The ultimate disruptor, taxi start-up Uber, raised $US1.2 billion ($1.4 billion) overnight. This values the company at $US40 billion and some of the money will go into expansion in this part of the world. Uber is now valued at six times more than it was a year ago, which is a valuable lesson for those who believe the obsession for start-ups is overcooked.

Oil prices did not rate a mention when Origin Energy chief Grant King addressed the American Chamber of Commerce in Sydney on Friday. This was a surprise given the carnage the oil slump is having on the sector at the moment.

But Origin is better placed than some rivals, particularly Santos, to withstand the reduced price assumptions. This was evident when Standard & Poor's said the reduction had a limited impact on Origin's financial metrics in 2015-16. Woodside Petroleum is suddenly the darling of the sector again despite coming under fire this year for not doing anything, not that it is sitting on a significant cash pile.

King was talking about carbon emissions, an issue which will have longer-term implications for all energy companies than the current cut in oil price forecasts.

He was selling his message that the world needs to change the way it looks at Australia's carbon footprint. King was particularly incensed when a BBC journalist called Australia one of the world's worst polluters during an interview with Joe Hockey on British television. The issue was also highlighted when Barack Obama was in Australia for the G20 last month.

Origin commissioned Deloitte Access Economics to find a new measure which links carbon emissions with economic growth. It is a ratio of carbon measured in kilotonnes per million US dollars of gross domestic product. He notes Australia exports twice as much energy as it uses domestically so it is unfair to judge its carbon footprint on a per capita basis.

The Deloitte's report has been out since last month, but King now says there is new data which shows there has been improved efficiency in terms of the country's carbon emissions.

King notes that being able to improve carbon efficiency, reducing absolute emissions and growing your economy at the same time is the absolute trifecta in the climate change game.

Only three companies have done that: Australia, Canada and the United States. The irony is that the US did not sign the Kyoto Protocol, while Canada pulled out. The shale gas boom in the United States will have more impact on that country's ability to reduce its carbon footprint in the future, which highlights the importance of technological innovation.

While initial public offers have dominated investment banking revenues this year, there has been a lot of talk and no action when it comes to getting takeovers across the line.

Pacific Equity Partners and Bain Capital lobbed a $872 million bid for engineering and construction group Bradken. It is their second stab at the company but they are now offering 15 per cent less than what they were prepared to pay in August.

It says a lot about the current economic environment where private equity firms are lowering their bid prices for takeover targets.

The Bradken situation is not unique.

Proposed takeover bids by private equity for Treasury Wine Estates and quality assurance firmSAI Global both failed to get across the line this year. Buyout firms are keen to park their money but only at the right price. The trend is to hang and wait for valuations to fall further, which is possible given the current market volatility.

Other investment firms and trade buyers circling Australian firms have also lowered bids this year.

Discovery Communications and Foxtel cut the price of an indicative joint offer they made for the Ten Network.

Singapore oils companyWilmar International and Hong Kong investment company First Pacific also lowered their offer price for Goodman Fielder this year.

Part of the problem is that deals are being disclosed to the market when it has not been entirely necessary to do so. This is partly because lawyers and boards are over-reacting to disclosure laws or because its in the interests of one of the parties involved to leak the news.

Bain has offered a decent premium for Bradken given the current market conditions. It has been following the **company** for some time.

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Tony Boyd is on leave

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AN Document AFNR000020141205eac600003

