Financial markets and institutions have been changed enormously in the last 2 decades. Things like globalization of markets, technological developments, boom of equity markets and deregulation of finance industry have also influenced retail banks and funds, which are topic of this essay. Activities of both institutions will be described. Commonness, differences and clashes were both compete will be considered as well as recent trends.

Retail banks provide a broad range of payment and financing services to their customers, which are individual persons or small businesses. Retail banks are authorized deposit-taking institutions (ADI's). That means they need a permission from the government to act. They could be normal banks, building societies or credit unions.

Financing services are chiefly deposits and loans.

Deposits mean they provide a safe haven, where customers can store their money. There are different types of those accounts. Current accounts are used for payments and transactions. They enable a fast access, but grant only low or no interest rates.

Saving accounts are applied to accumulate funds. They are less liquid, but guarantee higher interest rates. In this category fixed-term, money-market and retirement accounts can be distinguished.

Loans are the other kind of financing service retail banks provide.

They take the money from depositors and provide it to debtors. The interest rate spread between the rate the debtor receives and the creditor pays is one type of bank income. This also shows that retail banks are mostly involved in indirect finance.

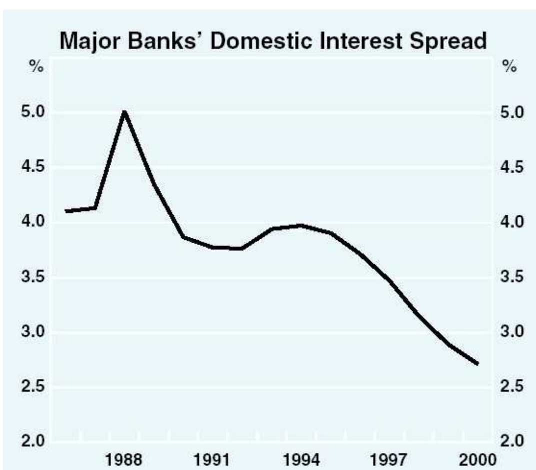
Loans for individuals and companies can be differed.

The first ones are often loans for housing. They are usually on a reducible basis with a floating interest rate. Other individual loans are personal ones for people's expenditure like cars or furniture.

Business loans are featured with a floating or fixed interest rate.

There are three different types. First are term loans with special arrangements. For example no interest payments in the beginning when the company starts and no revenues are received.
Second one is leasing. This is a very tax-effective kind of financing, because these rental payments are accounted as costs and reduce income and tax liabilities.
Last possibility is overdraft. Businesses get a limit to which they can make use of loans. This gives them flexibility, because interests are only paid on the amount actually taken.
Another retail banking service is payment. There is the traditional way of catching money from the bank and paying in cash. Although cash is still the most popular form of payment for small amounts in Australia (about 20 billion transactions a year) other kinds of transaction settlement develop fast.
Cheques are the most important form of non-cash payment. More than one billion are issued a year.
Another big category is *direct-entry transactions*. They add up to 26% of non-cash transactions. Direct-debit and direct-credit can be distinguished.
Payment cards became very popular in recent years. There are two possibilities. Debit cards allow direct access to the customers account. Those cards are mostly issued by banks. About 16 million are circulating in Australia. Credit cards, with 10 millions on issue in Australia are a kind of revolving credit. The amounts are outlaid by the credit card company and debited e.g. monthly on the customers account.
Stored-value cards are prepaid cards. Especially for long-term bus tickets, library photocopying machines or prepaid phone cards. But for the payment system they still stay unimportant.
A total new kind of payment is *e-Cash*. It was established primarily to pay for internet purchases. Both merchant and customer need an account with the settling institutions. Until now most kinds of e-Cash are in a phase of trial.
Retail banks earn money through the interest rate spread and fees for accounts and payment services.

Another big trend is the development of location-less banking. In former times the only way to do banking business was to go to your local branch. This has changed enormously. Today it's possible to do transactions via phone or internet. The next step will be electronic banking via mobile phone. But also the various kinds of "e-banking" services will increase. In future customers will be able to see their advisor via image over internet or mobile phone at any place. This enables also to do more sophisticated services like investment consultation or credit negotiations on an electronic way. So bank branches are getting less and less important.
After deregulation of finance industry regulatory entry barriers are lower and competitors are able to enter special parts of the market. Now companies compete for every single product and sell it separately, too. This also led to introduction of fees for services and the reduction of cross-subsidy.
Because banks are not able to finance costs of payment services through the interest rate spread anymore as the spread diminished in recent years.



RBA Bulletin: "Bank Fees in Australia", July 2001

That's a sign for more efficiency and competition in the retail banking sector. Now every service has to be profitable on its own.
In following table the increase in fees for households and business as a per cent of deposits or credit can be seen. Fees for deposits for example increased by 100% for households and by 62.5% for business between 1997 and 2000.

Level of fees as a per cent of deposits or credit				
	1997	**1998**	**1999**	**2000**
Households				
Deposits				
- Account-servicing	0.13	0.13	0.16	0.18
- Transaction fees	0.10	0.17	0.22	0.27
Total deposits	0.23	0.30	0.38	0.46
Loans				
- Housing	0.18	0.23	0.19	0.20
- Personal	0.79	0.56	0.62	0.64
- Credit card	1.50	1.41	1.57	1.79
Total loans	0.32	0.35	0.34	0.36
Business				
Deposits	0.40	0.53	0.58	0.65
Loans				
- Small business	1.65	1.69	1.57	1.49
- Large business	0.86	0.73	0.75	0.76
Total loans	1.12	1.02	0.99	0.97

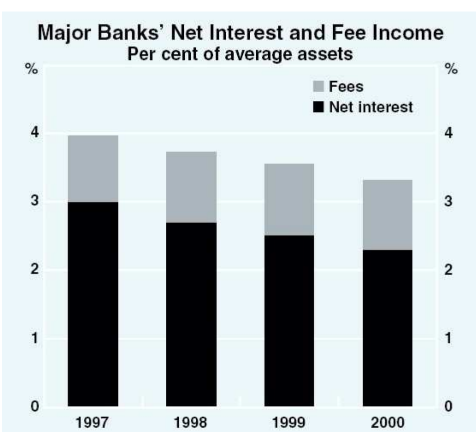
RBA Bulletin: "Bank Fees in Australia", July 2001

The total increase of banks' fee income can be recognized at next table. It shows a strong double-digit growth in recent years.

	$million	**Share of total fees** %	**Percentage change since 1999**
Fees from:			
- Households	2 148	34	18
- Business	4 108	66	12
Total fee income	**6 256**	**100**	**14**

RBA Bulletin: "Bank Fees in Australia", July 2001

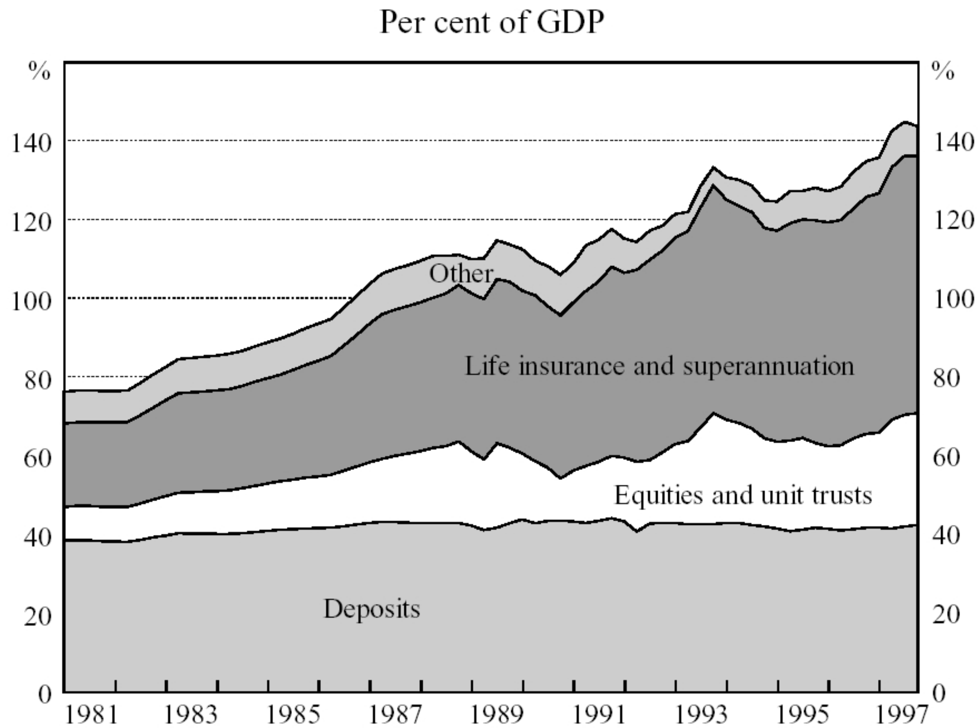
But in relation to total assets the increase in banking fees didn't offset the reductions in interest margins. So banks total income shows a falling tendency in relation to assets since assets are growing strongly, too.



RBA Bulletin: "Bank Fees in Australia", July 2001

Funds are collected money from individuals that is invested jointly in shares, bonds or the money-market. These investments are administrated by portfolio managers. Being together and building a bigger amount they can invest in wholesale markets and create a diversified portfolio.
At this direct form of financing investors are exposed to the investment risk, which means a higher chance of losses but also the possibility of a bigger income.
Three kinds of funds are distinguished.
Superannuation funds are meant to provide income for retirement. A percentage of wage is paid in every month. Over a long period good results can be achieved, because of the interest on interest effect.
Public unit trusts are the classic kind of funds. Every investor owns units which can be bought and sold in the secondary market.
Insurance funds invest the collected premiums of their customers.
While retail banks are the only ones to provide payment services, they compete with funds in the market for retail investments.
Funds enable their customers a broader range of investment facilities like shares, bonds etc. They are involved in direct financing, because they take funds of the customers and invest directly. In contrast retail banks do indirect financing that means they acquire deposits and make loans.
The amount of assets invested in funds is growing faster than the amounts held in accounts. In the second half of the 1990s there was an increase in fund deposits of 20% pa totalling to AUS$ 645 billion. The biggest amount is invested in superannuation (AUS$ 302 billion), showing the growing importance for the need of retirement income of an aging society. The rest is shared into insurance funds (AUS$ 148 billion) and unit trusts (AUS$ 157 billion).
In comparison to that the total account deposit amount is up to AUS$ 393 billion. This represents only 60 % of the amount invested in funds and it's growing slower, too. Current accounts which stand for 1/3 of all retail deposits grow with an annual compound rate of 10% pa, saving accounts even less with

6% pa. This shows the increasing importance of managed funds. The following picture clarifies the tendency over the last 2 decades.



RBA Bulletin: "Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy", March 1999

There are several reasons for this development. Interest rates have been on historically low levels in the last years. This encouraged people to invest more money in funds, especially the generation of the so-called baby boomers. These are people who are born after World War II. They are better educated, grow up in a stable environment with economic growth and are more willing to take risk investments. Of course banking accounts are more safe and liquid. But good results of fund managers in recent years in consequence of share boom put pressure on banks to pay higher interest rates on saving accounts. But this couldn't stop the faster growth of amounts held in assets in comparison to the total amount of deposits.

Another business segment where banks are exposed to more competition is that for loans. This pressure comes from loan originators. They detect new borrowers and make offers. The real loan is provided by a fund manager or

an issuer of securities. As a result ADI's reduced interest rates which led to a narrower interest spread. Another effect was that ADI's started to issue house loan securities themselves.
Because of the advantages fund managers have in raising retail funds and issuing loan securities banks diversified and financial conglomerates have been established. For example, the AMP entered the banking market in 1998 or the Colonial Mutual Life Assurance Society Ltd. took over the State Bank of New South Wales.
Such strategies seem to have some advantages for both company and customer. Costs can be reduced because one branch can be used to sell banking, investment and insurance products. And there's more efficiency having only one file per customer. The latter can profit by more convenience, getting tailor-made financial products in one place.

All in all it can be concluded that competition in the finance industry has been increased in consequence of deregulation. Now more institutions are able to offer products. As a result every single one has to be competitive on its own. The boom of share markets and the advantages of fund managers in this sector led to the development of financial conglomerates as banks entered this field. Another important part was the evaluation of the internet and following possibilities of payment and "e-banking".
The effects were a more efficiency financial sector as well as more, easier and cheaper services for customers.

References:
Ben Hunt, Chris Terry: “Financial Institutions and Markets”, 3rd Edition

RBA Bulletin: "Bank Fees in Australia", July 2001.
www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_jul01/bu_0701_1.pdf

RBA Bulletin: "Australian Financial Markets: Looking Back and Looking Ahead", March 2000.
www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_mar00/bu_0300_3.pdf

ABS: "5655.0 Managed Funds", December 2001.
www.ausstats.abs.gov.au/ausstats/subscriber.nsf/Lookup/142E7F20A1C183E0CA256B6D0

Bank for International Settlements: “Payment System in Australia”, June 1999

RBA Bulletin: “Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy”, March 1999
www.rba.gov.au/rdp/RDP1999-05.pdf

David T. Llewellyn, RBA: “Banking in the 21st Century: The Transformation of an Industry”, 1996
www.rba.gov.au/PublicationsAndResearch/Conferences/1996/Llewellyn.pdf

RBA Bulletin:”Australian Financial Markets”, September 1999
www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_sep99/ bu_0999_2.pdf

Dr. Reinhold Leichtfuss, McKinsey & Company, Inc.: “Trends in European retail banking”, August 2000
www.mckinsey.de/_downloads/knowmatters/finance/retail_trends.pdf