

# Cyber-bucks: finance on the Internet

*Chris Connolly considers the increasing array of financial services online*

**T**oday's advertising of online financial services delivers an extraordinary message: consumers can do anything online - apply for a loan, trade in shares, pay bills, even conduct their general banking. So how close are we to this seamless, cashless world? How true is the current advertising hype?

For some aspects of financial services the hype is reasonably accurate. With the right equipment and software, and a little knowledge, it is possible to shop for home loans online, trade shares and make other investments online, and pay some bills online. Day-to-day banking and general online "shopping" is a little more hit and miss but systems are developing quickly. However, there are traps and risks for consumers, and they need to take the online plunge with eyes wide open.

Far and away the best online financial services are those associated with share trading and investments. Discounts on brokerage and entrance fees are substantial, and the services on offer are impressive. There is a degree of variation between each service in relation to how truly "online" it is, but these back office differences have little impact on the consumer's online experience. Online broking services are attracting substantial repeat business, which does not appear to be the case for other online financial services.

Indeed, the only real consumer concerns in online trading result from consumer behaviour itself, such as speculative day trading and over-commitment. Education, sensible promotion and some regulatory supervision are the keys here. The technology is working fine.

Online lending is also well advanced. Most individual lenders offer information, terms and conditions, application forms or online applications on their websites. Many have interactive calculators to assess how much consumers can borrow and what the repayments will be. While these services are very convenient, there are some hitches from the regulatory perspective.

Australia has fairly complicated regulations regarding the disclosure of information in a credit transaction, and more work needs to be done to ensure that all of these requirements are met in the online process. However, the service is generally good, and some lenders offer discounts on application fees for making the application electronically.

The real problems in online lending arise when comparative services or mortgage broking services are considered. These are typically websites which provide a comparative shopping service regarding home loans (and occasionally credit cards or personal loans). Some sites are independent and comprehensive. They list all possible products and provide clear information about who they are

and how they calculate their comparisons.

But with many other sites things are not so clear. Website operators may be receiving commissions from the lenders they recommend. They may only offer comparisons between a very small range of lenders. There is often no information on how their comparisons are calculated.

Telstra Big Pond, for example, hosts one high profile online lending service under the name Lenders On Line. It declares that it is an independent service offering comparative information on mortgage products to "take the hassle out of finding the right home loan for you". The consumer indicates mortgage preferences and it calculates a selection of appropriate products.

But consumers need to take care on sites like this. The Lenders On Line website states: "With over 50 of Australia's top home loan products, Lenders On Line offers you more home loan choices to help you make the right home loan decision." But dig deeper and one finds that it only offers products from 11 providers, three of which are Westpac affiliates. With hundreds of mortgage providers available in Australia, and more than 3,000 individual mortgage products to choose from, limiting the choices to just this handful of providers is a big risk.

Also, consumers should consider the independence of all comparative or brokerage sites carefully. Lenders On Line, for example, does not list an ACN registration number or the

address of its registered office. There is a general promise of independence, and some good commitments to independent auditing, but a confusing message on remuneration:

*"Lenders On Line is remunerated participating financial institutions (sic). The home loan information provided by Lenders On Line is independent and unbiased. To ensure that our information is independent and unbiased, Telstra Big Pond has commissioned an independent chartered accounting firm to audit Lenders On Line monthly sales and commissions every four months."*

It is difficult to be exactly sure what remuneration arrangements are in place from these statements, but the combination of the absence of big name mortgage brands (like Commonwealth Bank, Aussie Home Loans, National Australia Bank and RAMS) and the absence of company identification details, like an ACN and the address of the registered office (or any physical office) make this high profile site of limited value.

Consumers looking for mortgages online would be well advised to visit a number of individual lenders, and more than one comparative site before making such a large and important financial decision.

General banking, on the other hand, may take a while to migrate successfully to the Internet. Current sites are limited to bill payment and internal transfers and account inquiries. Even these services are subject to some fairly onerous terms and conditions.

Some of the largest Australian banks have special terms and conditions for Internet use which do not exactly boost consumer

confidence. Westpac states that it "will not be liable for any parties (sic) reliance on the information obtained through use of Internet Online Banking; or any failure or delay of Internet Online Banking to provide information or perform operations requested."

The National Australia Bank "is not liable for any errors caused to your computer or computing equipment as a result of using the service (and) the failure of the service to perform in whole or in part any function which the National has specified it will perform."

The Commonwealth Bank "undertakes to make all reasonable efforts to ensure that a Service you use is available to you during the hours specified by us from time to time but we are not liable to you for or in connection with failure of a Service to perform in whole or in part, any function which we have specified it will perform."

Under these conditions, consumers may be reluctant to engage in large transactions or conduct all of their banking electronically. The banks will have to take a little more responsibility for the technical operation of their online services before winning the hearts and minds of consumers.

In addition, the ability to find important information (like interest rates, fees and charges and branch locations) on banking websites is the subject of a current study by the Communications Research Institute of Australia. The results of that study should be available shortly.

The future of online financial services will involve improvements to all of the services discussed above, and (in theory) the

introduction of secure electronic payment systems. These payment systems are required to supplement credit card systems so that purchases can be made for small amounts. Often referred to as micro-payment systems, Australia is still probably a few years away from the mass roll out of this technology.

***For those people who do have access to the Internet, and who have the time to do a little shopping around, online financial services provide obvious benefits.***

But consumers need to be mindful of the exact services being offered, the independence of any advice online, and the hidden risks in the terms and conditions regarding liability for technical failure. Although not quite "full service" at this stage, the pace of change indicates we are not far away from meeting the hype of the advertisers. <<

**Chris Connolly is director of the Financial Services Consumer Policy Centre**