



> **BRYAN O'CONNELL** FAIBF IS MANAGING DIRECTOR OF B@NKFIN CONSULTING PTY LTD. A COMPANY WHICH SPECIALISES IN PROVIDING STRATEGIC AND MARKETING CONSULTANCY SERVICES TO BANKS, FINANCIAL SERVICE PROVIDERS AND INFORMATION TECHNOLOGY COMPANIES.  
EMAIL [bryanoc@bankfin.com.au](mailto:bryanoc@bankfin.com.au) [www.bankfin.com.au](http://www.bankfin.com.au)

# KIWIBANK

## – OFF AND RACING

**NEW ZEALAND'S RECENTLY ESTABLISHED KIWIBANK IS A BOLD MOVE AIMED AT FILLING A PERCEIVED MARKET VOID: A BANK COMMITTED TO PUBLIC OWNERSHIP, COMMUNITY NEEDS AND LOW COST SERVICES.**

At last, the lengthy community and political debate about whether the bank should have been established is over. Kiwibank is off and running, featuring a cost-efficient technology base, some bold commitments to its customers and some very competitive products and services.

Kiwibank has certainly created a new and fresh approach to the New Zealand banking market. It is being watched with great interest by banks on both sides of the Tasman. For New Zealand banks, the jury is out as to whether Kiwibank will be a feared competitor or a means to offload their unwanted unprofitable customers.

Kiwibank started with nothing but a strategy and investment capability. It is essentially a start-up bank with no existing customers, no processes and no database. So with such a barren base to begin with, how and on what basis can the bank be successfully established?

Kiwibank chief executive Sam Knowles says that entry into the personal banking market, which is its major focus, is based on leveraging three key advantages –

- > Its existing investment in the Post Shop network of more than 300 shops that currently have assisted transaction (that is, teller) capability;
- > The potential cost advantage from using new technology to lower product manufacturing costs; and
- > New Zealand ownership and linkage to the Post brand.

According to Knowles, these comparative advantages have formed the strategic base for the new banks entry. Execution of this strategy is the principal driver of success going forward.

For the bank, the overriding goal is to deliver personal, consistent and error-free service to all customers.

As a new entrant to a mature market, Knowles believes Kiwibank must deliver superior value to its target customers, in terms of both cost and innovative products and services.

"It also requires a long-term relationship with a systems provider that encompasses a philosophy of joint development and gain sharing in new product and service areas," he says.

### Defining the difference

Every new competitor in any industry must have key ways in which they set themselves apart from their competitors and Kiwibank is no different. Kiwibank's differentiating factors include its NZ ownership (every other retail bank there is foreign owned), community involvement, treating people fairly and keeping fees low.

Setting up a new bank has been a major part of New Zealand Post's business strategy for a number of years. New Zealand Post maintains that it is a logical fit with its business and its national network of more than 300 Post Shops. These outlets have extensive experience in high volume financial transactions and are trusted and well known in the community.

### What the bank offers

Kiwibank has moved rapidly to establish its points of representation through both bricks and mortar and other touch points. The establishment of the distribution infrastructure has been impressive within a relatively short time frame.

The bank currently has 140 branches (end of April). This will grow to up to 300 by the end of June 2002, making it the biggest branch network of any NZ retail bank.

As mentioned previously, the bank has a focus on personal banking for individuals and offers a full array of products and services, from cheque accounts to phone and internet banking. The channels include:

- > The New Zealand Post Shop retail branch network
- > Telephone
- > ATMs/Kiosk
- > EFTPOS
- > Internet access
- > Email
- > Mail

## Technology – starting with a clean sheet

Technology is critical to any bank. In the case of Kiwibank, the challenge was to put in place technology systems for the next five years and beyond.

The system designers did enjoy a key advantage – the lack of an incumbent legacy system. As a result it could examine the best system that would meet its strategic objectives without having to worry about matching to an old network. How many banks are ever in that position?

Given the technology developments over the last five to ten years, there was a wide range of choices. After an extensive selection process involving a range of global technology players, management chose a system known as Ultracs, by Ultradata.

Ultradata is an Australian owned company specialising in the financial services industry and has just celebrated its 25th anniversary of its operations.

Ultradata chief executive Peter Henshaw said that, as Ultracs had already been used in the New Zealand market, the company was well placed to deliver for Kiwibank. “We did that in seven months,” he said.

According to Henshaw, some of the core strengths of Ultracs include its total data and system integrity. In particular, the system is very client centric by design – thus it helps Kiwibank build relationships with customers by providing a total view of the customer’s dealing, along with the tools to manage the relationship. In addition, it is totally integrated across all channels and processes and is an enterprise-wide financial services solution – Henshaw says that this results in organisational efficiencies, a total picture of Kiwibank’s business and comprehensive information for decision making.

It appears that these strengths were what Kiwibank was looking for, and are fundamental to the success of its business strategy, particularly in relation to offering innovative products and lower fees.

Mr Ron van de Riet, Kiwibank’s head of information technology, said the Ultradata system was the most flexible one available.

“It allows us to deliver our products and services efficiently, without a very large IT team and the costs associated with that.”

“Kiwibank can then pass those cost savings on to our customers through lower fees and better value banking services.”

Kiwibank’s Sam Knowles says technology is one key reason the bank can offer fees at half other banks’ levels and still make money.

“Our profit targets are lower than some of the other banks and we have a lower cost base,” he says. “We have new technology which is flexible and much cheaper to run.”

## Implications for Australian banks

Given they all operate in New Zealand, the major Australian banks will be closely watching Kiwibank. If it is a success, Kiwibank will raise the debate about the viability of – and need for – a major community type bank in Australia.

It is early days for Kiwibank, but the venture also promises to highlight the shortcomings of Australian banks to fully address customer and community concerns and banking’s tarnished image. ■

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