Austria's banking sector – setting new standards?

Peter Taucha of Deutsche Bank examines how Austria's banking sector is shaping up with cash management and e-banking.

Austria's banking sector is made up of a large number of small banks, and a small number of medium-sized or large banks. There are no banks of truly international size. As of 30 June 2000, 947 separate legal banking entities existed in Austria, although a large number of these are working with uniform products.

Banking supervision is currently a task of the Ministry of Finance, but an independent banking supervision body is under consideration by the government.

The large universal banks own holding companies, with equity in industrial and other non-financial companies and in subsidiary financial institutions. All major Austrian banks have close ties to the insurance sector, either through wholly-owned insurance subsidiaries or through cross shareholdings or joint ventures with domestic insurance companies.

More than half of the total assets of Austrian banks is in the hands of a small number of big banks, with Bank Austria, Erste Bank (lead bank of savings bank sector); Creditanstalt (belonging to Bank Austria but operating as a separate unit in the domestic market), RZB (lead bank of rural co-operative banks sector) and BAWAG being the largest. Of the foreign banks in the market, Deutsche Bank is the leader.

Clearing systems

All Austrian banks have an account with the central bank ('OeNB'). There is no automated clearing house for payments as they are settled primarily bilaterally between domestic banks. For remaining net balances the Austrian RTGS ('ARTIS'see below) is used.

An electronic messaging system was set up in 1988 for sending ATS wire transfers as well as balance and transaction information on banks´ accounts with the central bank. This system was replaced in 1997 by a real-time gross settlement system (RTGS) called 'Austrian Real Time Interbank Settlement' (ARTIS) for urgent (high-value) transfers between banks and is operated by a company owned by some of the Austrian banks and the central bank.

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Since January 1999 this has operated in Euro only and is linked to TARGET ('Trans-European Automated Real-Time Gross-settlement Express Transfer'), the RTGS systems of the European Central Bank.

The retail banking services provided jointly by all Austrian banks include the eurocheque system, the automatic cash dispenser system ('Bankomat'), a point-of-sale-system ('Bankomat-Kasse'), and an electronic purse ('Bankomat-Quick', based on a chip in all eurocheque and most other bank cards). According to special arrangements between all Austrian banks, such payments are debited to the relevant accounts with transaction-day value, irrespective of the account- maintaining bank.

Austrian banks have concluded numerous interbank agreements on:

- Electronic Data Interchange (EDI) between banks and with customers based on the EDIFACT standard;
- standardised payment order and cheque forms;
- scanning and truncation of payment forms and cheques;
- data exchange of images of payment forms;
- a multi-bank standard ('MBS' see below) for electronic banking.

The primary difference here is the long tradition in B2G (Business-to-Government) EDI, with even legal action being taken electronically. This is also relevant for EDI between corporates and banks. It is this environment that prompted the Austrian banking industry to choose the EDIFACT standard as a flexible tool for all future data exchange on payments in euros and the Austrian schilling related standard will expire at the end of 2001. Austria is thus the only country where all banks are fully capable of EDIFACT data exchange. This will be the basis of structuring remittance data between corporates to make the automated reconciliation of accounts receivables much easier. The payments still ordered on paper are scanned and interpreted by most banks automatically. This increases the portion of data available for account reconciliation and even images of scanned payment order forms can be made available to the receivers to review. Presently these images are reprinted only as annexes to account statements.

The average clearing time for domestic payments is one to three banking days, depending on the number of banks in between payer and beneficiary. It is market practice that the beneficiary bank (and most intermediary banks in between the sending and receiving bank) credits a transaction with a float of one value day. Although within ARTIS all transfers are settled with same-day value on banks´ accounts with OeNB, it is up to the beneficiary bank to take one value day from the beneficiary. For deposits of cheques and direct debits the value date depends on the number of intermediary banks in between the depositors´ bank and the payers´ bank.

Interbank data-exchange is, in most cases, handled via bulk file transfers between bank data centers. Nevertheless, there is still a substantial part of data carriers exchanged (the so-called 'garage-clearing' where banks' armoured car transports meet to exchange tapes, cheques and other paper-based transactions once a day).

Electronic banking

In 1995 an Austrian banking standard for electronic banking procedures was introduced which covers electronic account statements, all kinds of domestic and cross-border payment orders (including ATS wire transfers), electronic account statements and batches with details on posted transactions (various credits and debits, domestic and cross-border). It is called 'Multi Bank Standard' (MBS) with four PC-products and five front end-systems of banks on the market. However, not all PC-products are 100% compatible with all bank front end-systems.

There is a second informal standard available that is offered by all major banks in the market, 'MultiCash'. The MultiCash software has payment modules largely adapted to Austrian banking standards, but not to the MBS telecommunications procedures mentioned above.

Internet banking is offered by major banks, but solely in a proprietary way, providing account statements and domestic payments only. Internet brokerage and FX-business are also offered by some banks.

A certified digital signature ('A-TrustSign' jointly developed by banks, lawyers and notaries, based on the Austrian Digital Signatures Act) will be piloted by the end of this year; the intention being to replace the sets of transaction numbers currently being used to sign payments within MBS. Customers will have one digital signature only for the majority of local banks (conforming to the local MBS electronic standard) and for an electronic legal interaction with lawyers and notaries. There are, however, other local offerings for digital certificates on the market eg, a-sign by a PTT daughter company. For cross-border B2B only worldwide initiatives will be the option, like the db-eTrustCard of Deutsche Bank based on the Identrus rules and infrastructure.

> The commercial cards market is still small but is slowly growing

Cash management

Providing flexible cash management services is a fundamental concern for Austrian banks nowadays. The focus is on increased efficiency of the account payables and receivables of their clients, by application of appropriate transaction types and electronic banking procedures.

There is an increase in demand for electronic and flexible interfaces between customers and banks in order to streamline corporate internal procedures. An automated reconciliation of collections is the goal, which is achieved to a large extent by using direct debits with retail customers and also between corporates. An inter-bank agreement to introduce full data capture of transactions ordered by paper will lead to a significant shift from paper-based to electronic transfers between banks, enabling corporates to receive a greater amount of credit transfers including customer reference numbers via eBanking. This will be further supported by structured payment details in electronic banking transactions. The business environment is very favourable for this, as Austria is one of the most advanced countries in Business to Public Institutions data exchange (eg, social security, tax and even legal actions).

Large corporates in Austria have had specific treasury software systems of differing origins in operation for years. Medium to small-sized corporates rely on cash management functions included in the electronic banking PC-software packages offered by banks. They are focused on balance and transaction information, and automating their accounts payable procedures.

In the area of liquidity management both types of cash pooling: cash concentration (ie, zero balancing with physical movement of balances) as well as notional pooling (interest compensation) are used. Cash concentration is the preferred way due to external costs like withholding tax and capital costs for banks. Minimum reserve costs of banks are no longer a major factor since Austrian banks now receive interest on these legally binding reserves. However, legal/tax/accounting advice is recommended on regulations, including the stamp duty tax on intra-group loans provided by shareholders ('Gesell schafterdarlehensgebühren'), withholding tax ('Kapitalertragssteuer'), arm´s length interest settlement and thin capitalisation ruling.

Intra-group netting is rare and is managed internally via accounting. Only the three global cash management banks in the Austrian market supply this facility, among them Deutsche Bank. Furthermore, other services like corporate and purchasing cards are provided by very few banks. The commercial cards market is still small compared to the US or UK but is slowly growing as market liberalisation by EU directives has increased the number of offerings in acquiring credit card transactions.

Summary

The Austrian banking sector is advanced in terms of the wide adoption of the EDIFACT standard and the current acceptance of electronic data exchange within the business environment. This opens up greater possibilites for future eBanking. In pure cash management terms, trends are fundamentally the same as those in most EU countries, namely:

- automating all data flows between bank and company,
- improving the transparency of bank charges and reducing their level,
- reducing the number of domestic cash management banks;
- establishing cash pools, including domestic and international cash pooling systems and,
- concentrating functions in shared service centers. ■

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