



Internet Banking Report 2003

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Introduction

In its earliest days as a commercial medium, the Internet promised to revolutionize business. It would free people to do things from the comfort of their homes and offices that could only have been imagined a few short years before – shopping, banking, trading stocks, doing library research, communicating with people around the world cheaply and instantaneously. Today, these have all become staples of life, which is, in truth, revolutionary. But the Internet was also touted as a tool that would make regular stores, bank branches, full-service financial brokers and other "old economy" ideas obsolete or, at the very least, passé. But a funny thing happened on the way to the new world order.

While enormously successful, the Internet has become an extension of business and commerce, often as an additional sales or distribution channel, but not necessarily a replacement for what came before. This is as true for banks as it is for book stores. While bankers have long been fascinated with the idea of online banking, the notion took longer to catch fire with consumers than book-buying or auctioning memorabilia on eBay. Now that e-banking has captured consumer attention, the growth has been dramatic despite customer worries about security. For bank customers, the appeal of Internet banking lies in its relative simplicity, absolute convenience and easy accessibility. The ability to "touch" one's money, whenever they are online, has finally become a strong draw for people after years of false starts. As *The Wall Street Journal* observed in October 2002: "Internet banking is an idea whose time has come – over and over again."

Why has online banking finally become popular? And what does the future hold? From where will the next big wave come? Are the banks, not to mention the companies that provide their e-commerce solutions, on the same page as end users when it comes to services people want or need?

We set out to answer the above questions, to probe what has finally made consumers believe "online" and "banking" go together. After all, electronic banking is an idea that has been kicking around for the last 20 years. For insight, we talked with people directly. We interviewed executives at banks and credit unions of varying sizes that provide online banking services. We talked to customers who use some or all of the online options and to the providers of Internet banking applications.

As much as possible, we want the people we spoke with to tell their own story. So this report will not be one of those studies that recite a laundry list of dry statistics like "X percent more people used online banking this year than some other year." Rather, we highlight the comments of our interview subjects, and quote liberally from their conversations whenever possible. We want you to hear what the people responsible for producing, maintaining and using e-banking services are thinking about. We hope you will learn something from what they have to say.

Chapter 1 – What We've Learned

Through our interviews with bankers, solution providers and customers, we came away with the following impressions of the current state of online banking and where it is headed next.

- The Internet boom may have gone bust, but consumers are responding to online banking positively. Interestingly, the movement to online is improving the quality of customers that banks are attracting.
- Online banking reduces customer churn, increases cross-selling opportunities, and is attracting some of the most valuable customers in the banking universe. If you are a banker, you don't want to lose these customers. In fact, you want to take them away from your competitors, though that could prove difficult to do.
- Although it's tiny market now, examples like ING Direct, with its success with CDs, and E-LOAN with its mortgage success, suggest that these products can be sold online. But, traditional banks must rationalize their back-office systems.
- Online customers tend to use more of a bank's services than other customers. The number of customer "touch points" is higher than with customers who don't use online offerings.
- Online banking customers could prove to be more loyal clients than others. Remember that many people continue to use AOL for access to the Internet, despite the fact there are cheaper and faster alternatives. Banking may not be directly analogous to AOL's business, except that the people we spoke with seemed to like the online banking services they knew, and didn't indicate a desire for change. Make a good first impression with customers and we think they will stick with you.
- The bankers we spoke with believe that their online customers are among the most valuable retail customers they have. Convenience draws consumers to online banking, but these people tend to be active in managing their money. The more they explore, the more services they tend to use.

- There was no compelling evidence customers were choosing a bank solely on the basis of the bank offering an online component. But, such offerings seem to increase customer loyalty.
- What will drive increased customer use of online services? Without question, security remains the biggest concern among customers. Fees are another consideration; people do not want to pay much for using a bank's online offering, especially when it comes to bill-paying services. Think carefully about using this channel as a source of fee income. Education is also important for wooing those customers who are reticent about using online services.

Though not a scientific survey, the impressions left by the professionals we interviewed are instructive. We encourage you to read all of the report, as well as the interview notes that follow, for a more complete picture.

Chapter 2 – The View From Bankers

The appeal of electronic banking to bank managers has long been centered on two intertwined beliefs: First, that online banking would reduce costs by giving customers another means of accessing their accounts without talking to a bank employee. Second, that online banking would attract high-quality, higher-income clients who required less hand-holding. To a certain degree, each supposition has proven true, though banks didn't expect the extent to which these customers would take advantage of offline products and services, too.

Giving customers the tools to check balances, transfer money, pay bills, apply for loans and manage assets with a few mouse clicks offers utility to customers for lower ongoing costs than maintaining a branch bank with tellers, loan officers and customer-support personnel. The bankers we spoke with are quick to point out that online banking has become an extension of their traditional approaches, and has led to an expansion of branch networks, ATMs and other sales channels, not replaced or reduced them as early online advocates predicted.

In general, banks are happy with their offerings and think customers are equally pleased. But bankers worry about optimizing their return on investment. Let's look at what some have to say.

2.1 E-banking: Why Banks Like It

Jim Smith, senior vice president of Consumer Internet Products for Wells Fargo Bank, sums up his bank's view in a way that was mirrored by almost every banker we spoke with. "Wells Fargo is very committed to the online space," Smith remarked when asked to describe the bank's view of the online world. "We view integration between all of our channels – from stores (physical branches), telephone, ATM and online – as important. It's what our customers are asking for."

"Integration," "customer convenience," "retention" were all popular terms for bank managers, particularly at larger financial institutions that offer a wide range of products. "Without a doubt, the word that constantly comes up from customers is

'convenience,'" says Karl Felsen, marketing manager for Fleet Bank. "People are too busy, and too hassled, and they like something that allows them to take control. We have pushed enhancements in that direction. Last year we (Fleet) added a lot of self-service features. Customers can do a stop payment on their own, for example. They can aggregate their accounts, including EZ-Pass or an airline mileage program. Convenience, convenience, convenience."

But it's not just the big money center banks that are pushing into online banking. In many respects, it is the mid-sized regional banks, along with community banks and credit unions, that are leading the charge in cyberspace. With \$1 billion in assets, Salem Five Bank fits the profile of a regional bank. It has only 12 branches – or "stores" in the bank's parlance – and has been in existence since 1855. Headquartered in Salem, Mass., and founded as Salem Five Cents Savings Bank, the bank was known as the "Nickel Bank" because on its first day of business, the deposits ranged from five cents and up. While the bank's history isn't unusual, in many ways Salem Five is atypical. It was one of the first to recognize the potential of online banking and is online under the URL of directbanking.com.

"Banks initially thought, gee, this will be a lower-cost channel and we will attract higher income, great clients," says Jay Spahr, senior vice president of electronic commerce for Salem Five, in explaining the bank's online efforts. "That is true, but what we have found is that they are active across the board. The interesting thing, strategically, is how much the Internet drives incremental business.. Only a small segment of our online users are Internet only. They use the ATMs more, they make more in-store visits, and they use debit cards more."

Seaway National Bank in Chicago, which is the largest Black-owned bank in Illinois, views online banking as a way of enhancing its relationship with customers. "Our commitment to online banking is strong," said Claudette Harris, marketing officer for Seaway. "I think it's geared to building customer loyalty."

Harris said her customers are almost exclusively concentrated on Chicago's South Side, served primarily by four area branches. "We offer online banking to be competitive with other major banks," she explained. "In our market, no one comes to us just to do Internet banking. It's there for customers who want it." She notes that in this particular

market, at least, interest is not strong at present but is expected to grow. Of the bank's 23,000 account holders, only 250 have opted for online access.

In contrast, on the West Coast interest in and usage of e-banking is generally strong, though some smaller bankers report reluctance on the part of certain customers to use online services. The Orange County (Ca.) Teachers Federal Credit Union, for example, says that expanding online banking is at the top of its priority list. "Our commitment to online initiatives that supports our members' needs is of the highest priority," declares Jose Lara, Vice President of Internet and Investment Services. "We dedicate a great deal of energy ensuring that our online systems are fully integrated to our core systems, providing our members with the peace of mind that online is as reliable and accurate as an in-person transaction."

Whether it's the general sprawl or the crowded highways of Southern California that make people want more convenient banking, the Orange County Teachers FCU says its customers are in love with the convenience of it. "There is a greater adoption of this channel to perform inquiries and/or transaction," Lara said. "It provides members 24/7 self-service access to their accounts."

Up the coast in San Francisco, Well's Fargo's Smith echoes the sentiment. Online banking "is customer driven. There is a huge amount of convenience in online banking. Once customers start banking online, they tell us that they can't live without it."

Which is good for the bank. Though he won't disclose specifics, Smith acknowledges that it's "profitable to Wells Fargo to have customers use the online channel. The customers that use online banking in conjunction with all the other channels (we offer) have the convenience, and we have a stronger relationship with them. Online customers have higher balances, buy more products (like investment services and loans), and are more loyal."

Smith is sanguine about the hoopla that surrounded many Internet services like home banking. The financial services industry at its core has not changed in 100 years," he said. "At the core, it's about managing relationships. When we become a trusted partner of customer and build a very strong relationship with them, we both will win."

Dominick Mazzagetti, President of the New Jersey-based NJM Bank, sums up his institution's approach to e-banking and its importance to his three-year old institution,

simply: "From the start, we saw online banking as a good, robust delivery channel. That's all. It's not banking, it's delivery. Customers always expect it to be there."

A subsidiary of the New Jersey Manufacturer's Insurance Company, a highly respected regional insurer, NJM Bank has only two branches. Mazzagetti says the bank would have been started with or without an online channel, though he called the Internet's availability fortuitous. Most bankers would agree with that assessment.

2.2 What Customers Tell Their Banks They "Like"

Most bankers report their customers are happy with the online services the institutions provide. In some cases the evidence to support their claims is anecdotal; in others the banks have undertaken surveys or know from monitoring how customers use services. Later we'll look at comments from the e-banking users we spoke with, but for now, let's see what bankers think about the state of customer satisfaction.

"Online banking is something our customers really want," explains Marianne Doran-Collins, Director of Online & Affinity Banking for the East Coast-based Sovereign Bank. "We offer a solid online product to make it easy for them to deal with the bank. I've been in the online financial industry for about eight years. The early adopters were the first to enroll in online banking, the first ones to pay bills online. Now the more mainstream, mass-market customers are using online banking products. The marketing and communications has overcome their reluctance."

Doran-Collins says her bank's adoption rate of e-banking by new customers "is quite high" with "65 percent of new customers signing up for online banking. The number one transaction that people do online is balance inquiries, then transfer funds, then bill payment." She added, "Of our online customers, a smaller fraction use bill pay, but those who do usually do about 10 transactions per month."

An adoption rate of 10 to 15 percent is more typical of the industry, according to independent research cited by Wells Fargo's Smith. His bank claims 3.6 million active online banking customers, which represents approximately one-third of its total customer base.

Sovereign charges a \$4.50 per-month fee for online bill payment, though the fee is waived for some accounts. "I'd say 50 percent of our bill-paying customers are charged

the fee," Doran-Collins says. Sovereign uses online surveys and comments received by its customer service centers to assess user satisfaction. Usability studies are planned for this year to assist in the planning of enhancements.

The \$4.50-per-month charge for online access is a popular price point with banks, though many larger ones waive the fee for sizable account holders. Fleet Bank generally – but not always – waives the fee. Fleet claims 3 million of its total customer base of 5.5 million are signed up for online banking. Of these, over 1 million are considered active users. As Fleet's Karl Felsen noted earlier, "convenience, convenience, convenience" is the watchword of the day for these customers.

"I'm probably typical of many of our users," Felsen says. "I had it for about three months before I used it. Now I don't know what I would do without online banking. I can log in anytime and see if a check has cleared. I also have a daughter in college. I can monitor her money and transfer funds at a click. It's fantastic."

Along with convenience, customers also love the feeling of having "control" over their finances, bankers say.

Online bill payment is also popular. Laura Schaeffer, Vice President and Commercial Services Product Manager for Oregon's Umpqua Bank, says that while her bank hasn't done "any kind of formal survey," her customers "seem to like the bill-pay feature." Commercial customers, in particular, "use online banking for bill payment, to originate wire transactions and to ACH transactions" such as direct payroll deposits.

As Salem Five's Spahr notes: "The convenience of being able to check your account information whenever you want is important. Being able to check whether the deposit you made the other day is posted, or whether a check cleared, all of these are things you can do immediately. I have clients tell me that they never open up their statements. Once they begin to pay bills online, most clients love it. You can do it in very short period of time."

2.3 What Customers Tell Their Banks They "Dislike"

So, with all these positives, what's not to like? From the perspective of bankers, the answer depends on whether people use their online services or not. Bankers feel that most e-banking users don't really have "dislikes" so much as they have "concerns," or "desires" for new services.

For users and non-users alike the chief concern is security. But generally customers seem to overcome their fear once they start using the services. To get non-users to relax their security concerns and start banking online requires good marketing and education.

"The greatest barrier to getting people to use online banking is that they like the way they are doing their banking today," says Spahr. "They like going to the drive-up window, they like going to the branch or the ATM."

The security question, Spahr believes, is something the entire industry must "keep working on and doing our best to insure that it is secure. Anytime there is a breach it impacts us all."

Robert Lowe, electronic banking coordinator for NJM Bank, notes that its bill-pay customers complain about vendors who aren't accepting payments electronically, which is a classic chicken or egg dilemma. NJM's application sends a check to those accounts and customers "wonder why they should have to pay a fee when *they* could send the check." Lowe says such problems can be addressed through good customer service. He also notes e-banking and online bill payment works much better over broadband than on dial-up connections.

Passwords, despite their necessity, also lead to complaints, usually because people tend to forget them. And fees, for those banks that charge them, always tend to elicit complaints.

2.4 Bumps On The Road To Growth

While every banker we spoke with expects to grow and improve their online presence, we were curious to know what stumbling blocks they believe lie in their path, whether they are from internal or external sources. As one might imagine, the difficulties vary from bank to bank, based on the sophistication of the bank's current system, the type of market the institution is serving, and its commitment to having an online presence. If there is one universal issue, it centers on educating non-users about the benefits of online banking and overcoming their skepticism. Some bankers also believe the industry hasn't quite figured out how the Web helps them grow their overall business. Here are some typical comments:

"The main thing is getting customers into it," says Fleet Bank's Felsen. "That's where the resistance is. It's trying things out. Once people take the step it is very rare that they abandon it." Fleet has tried various introductory incentives to induce customers to try online banking, he said. Last year, it gave people \$5 for the first five bill-pay transactions they complete.

Seaway National's Harris says educating both staff and customers are among its biggest obstacles to greater use of e-services. Harris says 70 percent of the people in her market have computers but only half of them have Internet access at home. While security is a concern, Harris thinks online banking can be sold as a way for customers to protect themselves against fraud. The goal is to give customers "reasons to try it other than convenience." For people worried about personal information being used illicitly, customers are told "you can go in and check your account while that information is available. You can see what cleared."

At Oregon's Umpqua Bank, the age of its customer base is proving a stumbling block. "I think there is still a little bit of consumer reluctance," said Umpqua's Laura Schaeffer. "Both (recently acquired) Centennial Bank and Umpqua have a customer base that is mostly seniors. They are still a little reluctant to bank online."

Umpqua's solution: old-fashioned, small town marketing.

"What we've done is made an Internet-connected computer available in Umpqua stores," Schaeffer says. "We serve our own branded coffee. People come in to surf the

Internet and learn about Internet banking. They are able to ask questions of employees. Our banks are in smaller communities where everyone knows everyone. You will see people having coffee and checking their stock quotes. It's been well received."

Better integration of online and offline products is also seen as needed to spur growth. "The biggest internal stumbling block really has been the need to integrate online products with the entire customer experience," believes Doran-Collins of Sovereign Bank. "Online banking has to be part of everything, the way we sell the product, the way the customers access the product, everything."

As an example, Fleet Bank is moving to convert its ATMs so that the interface at the cash machine resembles that of its Homelink Internet banking service. Included in that effort is software that will allow Homelink customers to import their payee list into an ATM, and use it settle bills. "It's not the first line of bill payment," according to Fleet's Felsen, "But it's another thing that we found from customer surveys. Ubiquity. Customers want the same look through multiple channels."

Finally, Salem Five's Spahr worries that banks haven't addressed how to ensure online banking leads to bottom-line growth. "The Web has eroded traditional margins," he notes. "We need to figure out how to use the Web to grow our business. ATMs increased the number of transactions. We need to figure out how to use the Web to benefit our business. What does it mean for the future?"

2.5 What's On The E-Banking Horizon?

For most banks, the future of online banking involves adding incremental improvements to the services they don't presently offer. Bill presentment and payment services are probably the closest things to a "Holy Grail" for banks, but most bankers feel their challenge is to make such systems ubiquitous for all potential payees. Online check imaging is another service high on most banks' hit lists for development, if they don't already offer it. Better integration of services, both online and offline, is also frequently mentioned as a key focus going forward.

"The integration of bill presentment and electronic statements is going to be the next big thing," says Doran-Collins. "We need to understand the economics of it and

what the customer wants and needs as we go forward with development." Sovereign Bank doesn't currently offer electronic statements.

Well's Fargo's Jim Smith echoes those sentiments. "It's the seamless integration of channels instead of looking at online banking as a standalone distribution channel." He predicts more banks will follow the approach of credit card companies and brokerages in trying to eliminate paper statements. "You will see other banks adopt online statements. There are banks that offer it, but it's not sort of expected (by customers) to be able to turn off the paper from a checking account."

Whatever enhancements are being contemplated by bankers, they are all driven by the need to cement relationships with customers or acquire new ones. Online banking is about both gaining new customers and helping existing ones better handle their finances.

"We don't want to be out there just pushing products at our customers," Smith comments. "We want to provide ways for them to access their funds and meet their financial goals. At the core of banking is managing the relationship and selling the appropriate product," Smith continues. "For example, on our site we have a retirement center, with information and tools for planning your retirement. At the end, there are products you can purchase from Wells Fargo. It's appropriately done, rather than bombarding the customer with ad banners."

Says Umpqua's Schaeffer: "We're seeing more and more banks implement imaging services. They are moving away from paper. I also think you will see more interactivity. We will be able to use online banking as a customer service tool, such as answering customers' questions online. More and more people don't come into the bank branch; they want to do more things electronically."

Spahr concurs, saying the ability for customer service personal to respond to questions online, in real time, will be a benefit to both consumers and banks. He also thinks bank Web sites need to evolve along with the Internet.

"We are all learning about this business as we go along," he says. "One enhancement is to make online banking more usable for clients, and make sure what they are looking for is there. I think Web sites are going to be more textual and faster loading, with less-intense graphics. I also view the Web as a way to introduce clients to new products and services."

Chapter 3 – The View From Solution Providers

3.1 What Banks Should Be Thinking About

Technology, of course, helps drive the e-banking equation. Integrated technologies make it easier for managers to track the banking patterns of their customers and design services to suit them. Many banks rely on technology provided by third-party software companies rather than design and build their own applications. These third-party providers can offer reliable and functional applications that have been tested in a wide variety of situations. But in order for the providers of e-banking technology to grow, they must work closely with their banking clients on new applications and services, in some cases encourage adoption and usage by end users, while also selling more banks and credit unions on the benefits of e-banking services.

As attested to by the bankers interviewed above, many banks are experiencing incremental growth that they believe is driven in part by their online offerings. Online customers frequently bring greater assets to the table, are more apt to use multiple channels to manage their money, and are more likely to take out loans and use other services. Yet, despite the evidence that e-banking provides benefits to banks beyond just providing a "convenience" for customers, some banks suggest they offer online banking primarily as a response to customer demand or because competitors offer it - not out of any real conviction it will benefit their bottom lines.

Responding to competitors makes sense but so does marketing and promotion, says Mickey Goldwasser, director of marketing for Open Solutions Inc., a Connecticut-based provider of e-banking solutions.

While "Internet banking is another point of access, a very convenient point of access, it should be promoted to customers," he says. In his experience, many bankers are blasé about their approach to e-banking. They say: "It's on our checklist. We offer it," according to Goldwasser. "But they need to see it as a viable tool and a consumer benefit. Some institutions say they have it and that's it. They are not actively promoting it. They should be marketing it, similar to what they did with the introduction of ATMs.

They had people demonstrating them. They were marketing the benefits to customers and telling them how to use it."

Goldwasser believes such reluctance is driven by vendors that "charge banks per user," which means increased use of online services increases their cost. As a result, some banks don't market their e-banking services, he contends.

"They say it's there for the customers who really want it," Goldwasser says. Plugging his company's services, he adds that "we charge a flat rate so banks can get as many users signed up as possible, and they get the benefit from it."

Of course, Digital Insight, a provider of e-banking solutions that does base part of its fees on number of users, disagrees with that assessment.

"Internet banking and online adoption has been on a steady incline since inception," says Jyoti Namba, a public relations manager for Digital Insight. "Every year usage goes up. It's a very slow and gradual increase with our customers and with consumers." A slow but steady adoption rate shows "behavioral change," Namba argues. "It's more of a trend than a fad."

USERS Incorporated supplies e-commerce solutions, account-management tools and back-office solutions to credit unions. It has over 300 clients of varying sizes, some of which use its products in their own data centers, while others work with the company as a traditional service bureau. John Schooler, USERS' chief technology officer, believes most banks and credit unions recognize the impact online banking is having on their business.

Contrary to early predictions, increased electronic banking did not result in a decline of traditional banking relationships, Schooler says. "Each new channel just becomes another option, and you tend to see the total number of transactions rise. For example one of our clients saw a 269% increase in their Internet transactions/inquiries over a four-year period. But for same period, teller transactions also rose 25%." In addition, Schooler says, interaction with ATMs and other channels also increased. This growing demand for traditional channels belies the original assumptions.

Digital Insight works at encouraging such changes in behavior, even employing a Vice President of Growth & Retention. Currently, Lois Koch holds the job. Her role, she says, is to help Digital Insight's bank and credit union clients promote different online

banking applications to their end users. (The program was detailed in a regular edition of eFinance Insider. See www.efinanceinsider.com, Issue 29 for a complete overview.) The very fact Digital Insight created such a position supports Goldwasser's contention that banks should not be content with merely offering online banking - they should be *promoting* online banking.

Banks, Goldwasser contends, "should be thinking about how can they better serve the needs of their customers via the Internet banking product. There's a phrase - Get to know your customers. That's one-to-one marketing. Banks should be tying into CRM products and offering timely, relevant, filtered offers. If you're married with kids and saving for college, they shouldn't be sending you information about vacation home loans. People don't mind getting offers as long as they make sense to them."

USERS addresses that issue through a product it calls Cross-Selling Manager. "It promotes whatever products the CU wants to promote," explains Randy Riesenber, vice president of e-services. The product is part of the company's Internet suite of applications. "Filters assess in real time what (services) that user has and presents the best options for them."

Jay Nalley, a client relations manager for Digital Insight, says banks should not view Internet banking "as a defense mechanism." He advises his clients to "look at it in terms of soft-dollar savings." He agrees that more bankers should look at online services "for reasons besides the fact another bank has it. It's a more positive view."

3.2 The Future of E-banking

The vendors we spoke with agree that, in many ways, online banking applications have evolved more rapidly than transformative banking technologies introduced in the past. As USERS' Schooler notes, ATMs and debit cards have been in use for 20 years, but until recently have offered more or less the same features that existed at their introduction. It took many years, he points out, to add features like point-of-sale use, or for large institutions like Fleet Bank to begin adding interfaces and applications to ATMs that matched their online services.

"The first applications were static things that had already happened; then we added transaction-oriented applications," Schooler says. "Now the online product has functions that you really can't do anywhere else but over the Internet."

Randy Riesenbergh, vice president of e-services for USERS, says that when it introduced its first online product, Personal Credit Union, "people were basically looking for things that happened to their accounts, such as checking account balances. The service grew to include inquiries. We added more and more service-representative functionality." Now, some versions include things like check imaging, or the ability to purchase savings bonds online, or make other transactions.

The speed of change has been surprising in some respects, Schooler notes. "I don't think we ever anticipated the excitement online banking would generate and that the demand would be as high as it would become," he says. "We have 180 clients running some or all of our online banking applications. Yes, it has moved faster than anticipated, but now we're educated and we are looking at (building) any function our clients might want."

Open Solutions' Goldwasser agrees with the upbeat tone for the application industry and their banking customers. "We're seeing good growth of banking online," he says. "There's a multiplicity of channels in retail banking. I can go to the branch and see my favorite teller or I can pick up the telephone and bank by phone, or I can bank by mail. Banks do a pretty good job allowing customers to access them through all channels."

At the top of most bankers' wish lists are billing services, vendors say. For those banks that don't offer bill payment through their Web sites, adding it is a priority. For those that already do, adding enhancements like bill presentment are a priority. But bill presentment is a difficult assignment for technology vendors because billing entities must be brought on board in some systematic fashion. Another feature of interest to banks is check imaging, which allows canceled checks to be viewed online. The technology is available and in use at some institutions.

"Bill presentment is one of those things talked about, but nobody has really figured out how to make it work," says Schooler. The variety of billing formats, along

with the need to convince billing entities that it will result in long-run savings, are part of the challenge.

"It's not banks pushing online payment, it's utilities and others who are forcing customers to pay online and that's driving a lot of the adoption," says Digital Insight's Namba. These large billing entities "want to go paperless" and are pushing customers to use the features.

Software developers are also working hard to introduce secure messaging services that will allow customers to interact directly with a bank's customer service operation in real-time, without fear of their communication being compromised. USERS is developing a secure application that will allow credit union members to send messages and then pick up answers the next time they log on to their accounts. The company is also working with a partner to develop a "live chat" application for use by call center reps. Digital Insight plans to introduce its own version of online chat for banks sometime this year.

As USERS' Riesenbergh remarked, competition is driving the development. "We have to very rapidly evolve and enhance these products," he says. "As huge sites add sophistication, their members' expectation ratchet up and CU's say 'Gee, we have to be as rich and robust as (competitors) are.'"

Another area of interest for technology developers are services for wireless devices along with account aggregation services for a bank's business clients. Though the initial thrust into wireless was largely a bust for financial institutions, developers believe there will be a market for such products in the future.

"I do think the account aggregation is going to come back. It's economic," says Schooler. "The same thing with wireless. Nobody is asking for it now because it is so expensive. (But) if the brokerages start taking dollars (from banks and credit unions) and the economy is better, people will start asking for those sorts of things again."

Finally, the ability to accept and process loans online is an important new feature for traditional banks to add to their online offerings. Internet-only companies like E-LOAN, Net Bank and Lending Tree can handle these processes. For established banks the difficulty is meshing this new technology with older back-end processes.

Banks "have huge issues on the back end" says Namba. Digital Insight tries to "work with financial institutions to reorganize their back offices to go from (processing) 50 loans a months to 100 loans a month."

3.3 Problems and Pitfalls, Real and Imagined

Every executive with a bank, credit union or software developer recognizes that customers are most concerned about online security. Though customers express that fear directly, the providers of online services believe the concern is misguided. Overcoming user anxiety is a matter of education, industry executives say.

"Security is certainly there at the top," Schooler says. "We are doing more to demonstrate the security of these applications and provide (our customers) with results."

Says Nalley of Digital Insight: "I'm hearing less and less about security as concern as people get more used to" Internet banking.

Software developers are more concerned with encouraging banks and credit unions to expand their online offerings than they are about online security.

"As banks begin to promote online banking, more people will start to see the value in it" and will overcome any fears they might have about security, Goldwasser says. "The rate of adoption is growing, and that's going to have impact on customers. Their friends start saying, "You don't pay your bills online?"

Chapter 4 – The View From End Users

Finally, what about customers? The techno-savvy, early adopters jumped into online banking long ago. Now banks are encouraging mainstream Internet users to try their online offerings. Whether customers sign up is driven by many factors. As noted above, security remains an overriding concern of many users, even if the providers think the fear is unfounded. But most banks also find, and many users concur, that once someone tries online banking they get hooked on its convenience.

Says Salem Five's Spahr: "The convenience of being able to check your account information whenever you want is important. Being able to check whether the deposit you made the other day is posted, or whether a check cleared, all of these are things you can do immediately. I have clients tell me that they never open up their statements. Once they begin to pay bills online, most clients love it. You can do it in very short period of time."

The users we spoke with describe themselves as comfortable with the Web. Many use it to buy products online, some have used PayPal to settle transactions on eBay, while others have used the payment systems of credit card companies to settle their accounts. Not all banks offer online bill payment, however, and like financial institutions themselves, customers tend to tip-toe into online banking. Their first step is usually to check balances online, and for many customers that remains enough. But next some will consider transferring money between accounts. Finally, when people become more comfortable with the notion of banking online, they begin using bill payment services. For banks, reducing the number of phone calls and in-person inquiries represents increased efficiency and cost savings. Overall, e-banking is perceived as a win-win for both parties. Confirming what bankers and service providers say, end-users love the convenience of online banking even as they worry about the security of their transactions.

Jack Rodeawald, a self-employed consultant in Thousand Oaks, Calif., is a Wells Fargo customer whose experience is probably typical of many online users. He started tapping into the bank's online product to transfer money and check his accounts "because it was available" and because "I didn't have to physically go out." Yet, despite those conveniences, he's not yet tried bill payment due to his concerns about security.

"Show me more security and no fees for checking" and he might take the plunge, he says. Then he notes the abstract nature of online banking. "I feel like I have more control over my money if I handle it physically," he explains. "Never touching or seeing what I have doesn't feel right."

Clearly, those kinds of abstract trepidations represent a challenge for proponents of online banking, particularly when customers say, as Rodeawald does, that "I don't pay attention to advertising."

Fees are also a concern of M.J. Shoer, a customer of the Bank of New Hampshire. The owner of a technology services company in Portsmouth, N.H., Shoer describes his familiarity with the Web and technology as "intimate. We are both on very good terms." But he complains that "banks should not be charging customers to do online banking as it greatly reduces the banks' overhead. Their profit model is not customer friendly," he contends. Charging fees on top of a reduced overhead "is good for the bank, bad for the customer. As a result, I only use the free services."

Archie K. Miller of Wrentham, Mass., is more of an "early adopter" who has used different online services. He's been a user of Fleet Bank's Homelink online service for three years. "I had been using Quicken for about five years. Using the Quicken online payment system and printing checks was such a pain," he recalls. Fleet promoted Homelink as being a simpler, less time-consuming product to use, so he tried it.

"I do all of my personal banking online now," he says. Echoing the opinions of promoters, Miller says he loves the fact "I can pay all of my bills in 15 minutes." He has also considered using Fleet's brokerage subsidiary, Quick & Reilly, for IRA and stock transactions, and may do so whenever the market seems attractive again. Integrated management of bank and brokerage accounts through Homelink are among the features Fleet is promoting.

"That's the power of Homelink," Miller says. "I could have everything with Fleet – mortgage, cars, so I've thought about it."

James Garrett, a real estate executive in Columbus, Ohio, says that while he uses his credit union's online service "to check the balance of my meager savings account," he would use bill-payment if the service "made it easier to pay bills and did not charge (me) new fees for it."

Martin Warfel, a retired executive living in Ewing, N.J., says his parent's advancing age led him to assume co-power of attorney over their finances. "I now manage their check writing and balances. On-line access to this information has been very helpful." Though he describes his comfort level with online applications as "on a scale of one to 10, probably an eight" he still has not used bill payment. "Security is key," he says.

In Orlando, Fla., Matt Ragas has used Bank of America's online services for three years. He considers himself an early adopter, yet doesn't use bill payment. "I probably should explore it, but I just don't trust that companies will get it right. I have that little trust issue," he says. His approach right now: He also uses a Bank of America credit card. "I can pay it off by transferring funds just to pay off the card. I love the ability to transfer funds."

Ragas says he is unsure whether any particular incentive will push him to try bill payment services. "I know the bank has made some offers, some free this or that, but it hasn't been strong enough," he says. "I don't think the incentive will come from the bank. The most compelling incentive has to come from the phone company or whatever, something beyond pitching me on convenience. To me, convenience is not a strong enough incentive for me to break my old ways. I think it is why online bill payment has drastically lagged" other Internet services.

In his view, the problem with Internet banking is that "it's not nearly as sexy a proposition as online brokerage. That's empowering you, there's a money-making incentive," Ragas believes. "With online bill payment you're not going to make any more money, though OK, you may save a little."

Appendix

A Note on Sources: The interview notes that follow were compiled by different reporters, hence the style is not consistent throughout. However, reporters worked from a topic list and sources were all asked similar questions.

Section 1 – Interview Notes With Bank Sources

Karl Felsen, Fleet Bank
Dominick Mazzagetti, Robert Lowe & Patrick Breslin, NJM Bank
Jose Lara, Orange County Teachers Federal Credit Union
Jay Spahr, Salem Five Bank
Claudette Harris, Seaway National Bank
Marianne Doran-Collins, Sovereign Bank
Laura Schaeffer, Umpqua Bank
Jim Smith, Wells Fargo & Co.

Section 2 - Interview Notes With Solution Providers

Mickey Goldwasser, Open Solutions Inc.
Randy Riesenberg & John Schooler, USERS Incorporated
Jay Nalley and Jyoti Namba, Digital Insight, Inc.

Section 3 – Interview Notes With Online Banking Users

Karl Felsen
Market Manager
Fleet Bank
Boston, Mass.
www.fleet.com

Please describe why Fleet Bank is committed to online banking services.

There is a much greater retention rate. If customers go further into bill payment there is even more of a tendency for them to stay as customers. That's particularly true if you can link accounts, such as to our Quick & Reilly customers.

How popular is online banking?

More and more customers are signing up. Three million people are now enrolled, and over one million of them are active users. Fleet's total customer base is 5.5 million. (That figure includes Quick & Reilly brokerage customers.) The most popular include the ability to keep track of your account or accounts. Next is bill paying and transferring money.

What kind of charges do customers pay?

The service is free with Fleet's two top-line accounts; otherwise there is a fee of \$4.50 a month. There is no per-transaction fee for bill paying; online bill paying is free. We have made a large investment in our online service and we are constantly improving it. It's a tremendous selling point.

What do people like?

Without a doubt the word that constantly comes up is convenience. People are too busy, and too hassled, and they like something that allows them to take control. We have pushed enhancements in that direction. Last year we added a lot of self-service features. Customers can do a stop payment on their own, for example. They can aggregate their accounts, including EZ-Pass or an airline mileage program. Convenience, convenience, convenience.

What are the stumbling blocks to attracting users?

The main thing is getting them into it. That's where the resistance is. It's trying things out. Once they take the step it is very rare that they abandon it. We try various introductory incentives. Last year, for example, we gave people \$5 for the first five transactions they try on bill pay.

What kind of feedback do you get?

We're constantly doing surveys and focus groups. Those drive a lot of the development we are doing. For example, a couple of things that we are working on right now are check imaging and account-to-account transfers. These are additional offerings customers would find handy. The suggestions came from customers. Fleet is also converting its ATMs with software that will enable people to import their payee list from Homelink. It's not the first line of bill payment, but it's another thing that we found from

customer surveys. Ubiquity; they want the same look through multiple channels. The majority of online customers are multiple-channel users.

What do customers like about the service?

There are a lot of people that are discovering online banking, particularly the young. If you have a quality online offering I think there is no question it is a help in acquiring customers. At Fleet, we have a reputation for a strong online offering.

I'm probably typical. Before the Web there was PC banking. I had it for three months before I used it. Now I don't know what I would do without online banking. I can log in anytime and see if a check cleared. I have a daughter in college; I can monitor her money, transfer funds at click. It's fantastic.

You can do just about anything online right now. It's a factor of making it easier, faster more convenient. Like bill payment. You can pay about any business, but you can't pay an individual. It's not a home run but it's another solid advantage.

Anything else you would like to tell us?

Our penetration is so high that we expect some slowdown in online. That just gives us time to work on those people that are enrolled but not active.

In December (2002) we brought up a Spanish language Web site. It is informational at this point, but over time we hope to make it a fully functioning part of Homelink.

Dominick Mazzagetti, President
Robert Lowe, Coordinator, Electronic Banking
Patrick W. Breslin, Assistant Secretary, NJM Insurance Group
NJM Bank
Ewing, NJ
www.njmbank.com

Dominick Mazzagetti:

The bank's approach was to have a fully transactional Web site from the time it opened. They missed opening the online bank with the bricks-and-mortar bank by a couple of months, because of a few unanticipated regulatory issues. "They weren't a big deal, but they required some additional filings, which took a little time." It ended up fine, however, because they were able to get the bank up and running before bringing the e-bank online.

NJM Bank was always going to have a commitment to online banking – "But we're *not* an Internet bank." They always regarded themselves as a physical bank, and online banking provides one more access tool for their customers. They're dependent on remote access – mail, phone, Internet. Branches aren't their main focus. The Web was always seen as a part of their delivery system.

Because of NJM's strong position in its regional market, the bank launched in a unique situation. They'd have opened the bank even without the Internet. The bank emulates the business model of the insurance company. It doesn't have salesmen, etc. They thought they could do the same thing with banking. "It's fortuitous the Web was around." When the site opened in February 2000 NJM Bank was ahead of the insurance company in terms of online transactions. Insurance does business by mail and phone. Just putting the Web to use now. Takes some claims. The difference is an industry thing. Banking is ahead of insurance.

"We were able to bring in site at a set price – we bought it, didn't build it. Internally, there was "a little" resistance to having a third-party vendor interface directly with customers. NJM usually handles its customers itself.

"From the start we saw this as a good, robust delivery channel. That's all. It's not banking – it's delivery." Customers always expect it to be there. The bank does expect growth in online banking, and thinks most people will do banking online – especially bill paying. "Slow mover now but once it gets going it won't stop."

Online banking is a step-by-step thing. People get into checking their accounts, then transfer balances, then take the big step into paying their bills online.

"If all you have is a checking account, who do you need the Internet for?" You can do everything by phone. People use voice to track check clearing, or the status of direct deposit paychecks, overtime payments, etc. With the Web you need to turn on your PC,

log in, access the site, enter password, etc. “A lot of people find it’s just easier over the phone.”

The bank’s Web customer is a person with multiple accounts who moves money between them. Savings, checking, etc. When you’re online, it’s easier to check all your balances at once. Why don’t more use bill-paying? Because they’re not online yet. Online payments are done by the more savvy banking customers. Used to be the younger Web users who are now becoming more sophisticated banking customers. So it’s a generational thing. Older folks don’t seem to trust it. There’s a percentage of 40 – 60 year olds who use technology to the nth degree. Others couldn’t care less.

The happiest customers are those who use bill-pay and like it. “I don’t hear much about the Web, and I never hear about VRU (voice response unit). I’d hear of there were problems.”

NJM Bank uses the “standard package that Digital Insight provides.” If it works all or 90 percent of the time, that’s what people like.

A successful online banking package must allow access to all of a user’s accounts, fund transfer and bill-paying. Customers are going to self-select their hot button. The person with one account would want to go online only to pay bills, but not many of those people come in and get comfortable and go to bill-paying.

25% of the bank’s Internet customers use bill paying. “But we haven’t marketed it.” 25% of total transactional accounts are online accounts. “Our message is its safe, secure, convenient and it may save you money.” Everything online has to be safe and secure. (He’s not sure saves you that much time, but online bill-paying is more convenient. And it’s great for recurring bills.) It goes back to his earlier point: The customer landscape will change over time. Also, bill presentment will make things easier, ie: Macy’s emails you a bill and you can then click a link to pay it.

Digital Insight is trying to sell them on a PayPal-like feature that would allow people to e-mail payments from the site, much as they can make payments from PayPal. Also would allow transfers between banks. A great feature for a narrow percentage of users – and will remain that way for a long time.

He doesn’t hear many negatives about online banking. He’d hear complaints if there were any. Most issues regard log-in problems and they’re typical Internet/PC customer service and education issues.

(They just added online check imaging. For people who need to check who a check was made out to, the amount, etc. Allows any customer to pull up copies of checks – printable images. They have fifty or so registrants without doing any publicity. People want that kind of feature – it’s convenient and accurate. They often want to see checks before they get their statements.)

“Over the next two years, we won’t use the site for customer acquisition.” He sees site making the user experience more convenient, and if it results in lower cost, that’s great. Deposit slips are online now, and users can print blanks. Loan applications, to fill out, print and mail. Won’t take online submission of applications for deposit accounts – not staffed for it, or technically set up for it. Don’t want just anyone coming on and making applications. The paper is a qualifier. They don’t want to have to check out each application and waste time on the back-end. Same with loans – they want to talk to people and advise them on the correct product. Also, regulatory compliance issues in workflow and rejection rate.

Patrick Breslin:

The online bank allows them to track deposits based on each marketing campaign. They get a lot of inquiries through the Internet. People coming to the web site when they see NJM Bank marketing and make the connection to NJM. Online banking is still a smaller percentage of customers overall.

Dominick Mazzagetti:

Next big things: Check imaging, growing interest in bill-paying. Bill presentment is 5 – 10 years away (as is online payment via email)

The more companies who’ll take electronic payment, the more such things will grow. Companies who don’t know how to handle e-bill-pay checks can cause problems in reconciling, etc. Also, there’s still a lot of clunkiness in bill-paying – a lot of data entry, etc. But that’s going to get better.

“If online banking went away tomorrow, we’d still be here.” They think *banking* not *online*. He thinks backs to ATMs – they’re all over the place, but that hasn’t eliminated tellers. It’s become another cost. But they’re not used instead of the teller; they’re used in addition to the teller. First Union’s “Bank of the Future” is an example of going too far and paying the price.

“NJM Bank is a brand play.” Don’t expend a lot of effort to get non-insurance customers. “We’ve barely scratched the surface.”

Robert Lowe:

Most comments from customers are good. 99% of responses to basic demo are “liked it or loved it.” Most common question is “is it compatible with Quicken?” In essence, NJM’s online bank downloads a Quicken file, but doesn’t connect to the program. So, there’s still some work for users to match things up. Need to have a comfort level with software to avoid duplicate records, etc.

Complaints: People who use bill-pay: Companies aren’t accepting payments electronically. Bill-pay sends a check and customers wonder why they should have to pay

a fee when *they* could send a check. Also, they hear about a lot of forgotten passwords, etc. Much typical e-product customer service.

Gotten compliments on site's look. Most customers seem to be broadband – 50% at least. Based on e-mail addresses.

Dominick Mazzagetti:

Bill pay doesn't work well on dial up. It needs ease and speed of broadband.

About 1,000 registered online users (meaning active – logged in at least once)

Total of 12,000 accounts (including CDs). About 4,000 households.

About 250 – 350 use bill pay. Adding 30 a month.

Jose Lara
Vice President, Internet and Investment Services
Orange County (Ca.) Teachers Federal Credit Union
www.octfcu.com

How would you describe your credit union's commitment to online products?

Our commitment is to online initiatives that support our Members needs are of the highest priority. We dedicate a great deal of energy ensuring that our online systems are fully integrated to our core systems, providing our Members with the peace of mind that online is as reliable and accurate as an in-person transaction.

Why the enthusiasm (or lack of it)?

There is a greater adoption of this channel to perform inquiries and/or transactions. It provides Members 24/7 self-service access to their account.

What are your customers happiest about?

The number one positive comment is the ability to view cleared checks online. The following are some testimonials from actual Members:

“Your site is great. I've noticed continuous improvements to the system over the last year and I've taken advantage of almost every single online service you guys offer. Keep up the good work and keep adding new stuff! Thanks!”

“I am overall very pleased with the online banking system. I haven't been late with a payment since I started first using the phone banking system and later the online banking system!) I love being able to see copies of my checks, to print statements, to transfer balances and make payments and see every step of the way what I am doing. Thank you for providing this service.”

What are they least happy about?

Not unhappy, but very worried about security.

For either of the above, how do you know? Direct consumer feedback or surveys?

We do random online surveys at point of log-off from our online system; this is where we get the comments listed above.

What role do you see for your site over the next two years?

Our online initiatives are driven by Member desire and feedback. We utilize this as a service that will continue in adoption and overtake our other electronic means of funds management for our Members.

What do you think will be the next "big thing" in online banking?

I am not sure, but interbank transfer through one platform using an electronic funds infrastructure is something I find intriguing.

Jay Spahr
Senior Vice President, Electronic Commerce
Salem Five Bank
Salem, Mass.
www.directbanking.com

Please describe your bank's commitment to online products:

It's sincere. We have been a relatively progressive bank in terms of offering Internet banking since its inception.

Why the enthusiasm?

It is integral to our business in that it offers clients a way to self-serve their accounts. It's easy and convenient for customer.

"The web site does act as an acquisition tool for us." But the approach to the Web is changing. "Seven years ago the ability to differentiate yourself online was easy. What's happened in the last seven years is that the online-only brands have folded and are now part of a bank's overall offering."

What else is different?

"The interesting thing, strategically, is how much the Internet drives incremental business. Only a small segment of our online users are Internet only. But our online customers are more active clients across the board. They use the ATMs more, they make more in-store visits, and they use debit cards more."

"Banks initially thought, gee, this will be a lower-cost channel and we will attract higher income, great clients. That is true, but they are also active across the board."

"But can you grow the business incrementally? We're all working on ways to do that."

What are your online customers happiest about?

"In general, clients who are 25 to 45 are more likely to have credit needs or they might need a mortgage option. Older clients are more deposit oriented."

"The convenience of being able to check your account info whenever you want is important. Being able to check whether the deposit you made the other day is posted, or whether a check cleared, all of these are things you can do immediately. I have clients tell me that they never open up their statements. Once they begin to pay bills online, most clients love it. You can do it in very short period of time."

"If you have a bill that you are certain is going to be the same each month it can be ACH'd out of your account."

Bill paying has been offered since the mid-90s. Initially it was on a telephone basis.

The penetration rate of 22% across the board. CU's in CA are as high as 35%. Commercial is in the 20% range; we're in keeping with the folks in our area. "We're getting our lion's share. The last stats I saw, penetration went from 16% to 20%. Online banking is becoming a mainstream option. We've gone past the early adopters. They are a broader based client."

"It's also being sold in the branch." Branch staffs and telephone call center staff tell people they can find answers online without having to phone or visit.

What are clients least happy about?

"The greatest barrier to getting people to use online banking is that they like the way they are doing their banking today. They like going to the drive-up, they like going into the branch or to an ATM."

"Security – that's one issue that we as an industry have to keep working on and doing our best to insure that it is secure. Anytime there is a breach it impacts us all." Problem resolution is also an issue, "but its not like bank's sell food. On the problem resolution side, in terms of a financial product, what you and I partake of is a piece of paper with some numbers on it. If problem resolution is an issue, maybe it's because your bank isn't listening. Problems should not be a barrier."

For either of the above, how do you know? Direct consumer feedback or surveys?

National research that the bank buys. "The best source is that we only have 11 branches, so I can go out them at any time. I'm in a store or branch once or twice a week. I also look at most of the e-mails that come in. From my standpoint, that's a benefit to being at a smaller bank." The call center is "across the hall from my office" so he has frequent contact.

What role do you see for your site over the next two years?

"We are all learning about this business as we go along. One enhancement is to make online banking more usable for clients, and make sure what they are looking for is there. I think Web sites are going to be more textual and faster loading, with less-intense graphics. I also view the Web as a way to introduce clients to new products and services." Online banking aids acquisition. Personalization was a big buzz word three yrs ago and still is important.

What do you think will be the next "big thing" in online banking?

"Wireless was a bomb that never took off. There is an opportunity for wireless to re-emerge in some fashion. Maybe for a segment. I think the role of integrating humans with technology for purposes of servicing clients is also interesting." By that he means "hitting a button for a call-back, for example, or more comfortably using instant messaging while you are resolving and issue with your bank."

"We're doing an active assessment of check imaging and bill presentment. Those are strong benefits. Though I have some clients tell me that they don't write checks, they just do bill-pay online."

Account to account payments also may "take off in the next several years."

What are your biggest internal/external stumbling blocks to expanding online?

"The bank wants to be competitive. Most institutions want to be a leader. When budgets are tighter its more difficult, of course."

"The challenges we are seeing is the regulators, who are challenged to keep up with this."

What are the biggest external stumbling blocks?

The Web has eroded traditional margins. We need to figure out how to use the Web to grow our business. ATMs increased the number of transactions. We need to figure out how to use the web to benefit our business. What does it mean for the future?"

Claudette Harris
Marketing Officer
Seaway National Bank
Chicago, IL
www.seawaynb.com

How would you describe your bank's commitment to online products?

Our commitment to online banking is strong. I think it's geared to building our customer loyalty. Last year, you could open accounts online. However, we took it off the site. We had a questionable account, which we suspected was fraud. Someone from Hawaii wanted to set up an account with us in Chicago. After that we removed the online account set-up.

We offer online banking to be competitive with other major banks. In our market, no one comes to us just to do Internet banking. It's for customers who want it.

Why the enthusiasm (or lack of it)?

There is a low interest in it from our market

What are your online customers happiest about?

The customers who do use online banking are just happy about having the sense of control and having more options. They want to know their options and check their balance. They want to feel they have control over their accounts.

We have a lot of usage of bank by phone options. We receive about 22,000 calls per month from customers, who are checking their balances or checking their last ten transactions. When they realize they can see their account information in real-time over the Internet, they are happy about that.

Online banking is available for free. Customers can transfer funds or transfer money to another bank

What are they least happy about?

The customers are not happy about passwords. The online banking passwords change every three months. There's nothing that we can do about it. That's the system we're using. There are fees for bill paying. There is 3 month free trial for bill paying, after 3 months; customers pay a percentage per month to get unlimited bill paying. They are not happy about that.

For either of the above, how do you know? Direct consumer feedback or surveys?

We get direct feedback from customers. We have 23,000 accounts, with 250 account holders using the online banking options. The administrator of the online service has close contact with these customers.

What role do you see for your site over the next two years: Customer service? Acquisition? Both? Why?

It's enhanced customer service. We would like our customers to be able to do as many things as they need without coming into the bank.

What do you think will be the next "big thing" in online banking?

I think it's check imaging. We are going to add that in the third quarter of this year, either September or October. Customers can actually see images of the front of the check. A lot of banks are doing check imaging already.

The next thing is also bill presentment or receiving your bills online. I know it's on the table, but I don't know if it's something that's on table for 2004.

We are steering away from taking applications for online loans. People currently get a "contact us" link on the Web site. We want people to come into bank. Coming into the bank ensures that we know who they are. Fraud is the underlying reason why we enforce that.

What are your biggest internal stumbling blocks to expanding online?

I'd say our biggest internal stumbling block is educating staff. Eighty percent of people who work here come from the community, and they are not familiar with the Internet. Once they understand it, they appreciate it.

What are the biggest external stumbling blocks?

We are in the south side of Chicago. It's a black, urban market. One of our biggest stumbling blocks is educating the market. We do a poll, asking random people in our market every year about their opinions. We found that while 70 percent of our market had a computer, only 50 percent had Internet access at home, and only 15 percent said they use the Internet for banking.

We do tell customers that the online services can help protect against fraud. If you are afraid your information can be used illegally, you can go in and check on your account. Your account information is always available, and you can check and see what's cleared in your checking account.

There are reasons to try it other than convenience. But how do you convince people that it is convenient? They have to just sit down and try it.

Marianne Doran-Collins
Director, Online & Affinity Banking
Sovereign Bank
East Providence, RI
www. sovereignbank.com

How would you describe your bank's commitment to online products?

The bank's commitment to online products is extremely strong. In 2003-04, we're going to make enhancement to improve our customers' experience and ability to use our products. It's what our customers want.

We have over 200,000 customers enrolled in Net banking. That's increasing rapidly for every new account we open. The bank has been providing online products for about 5 years.

Why the enthusiasm (or lack of it)?

Online banking is something our customers really want. We offer a solid online product to make it easy for them to deal with the bank. I've been in the online financial industry for about 8 years. In that time frame, early adopters began using products first. The early adopters were the first to enroll in online banking, the first ones to pay bills online. Now the more mainstream, the mass market customers are using online banking products. The marketing and communications has overcome their reluctance.

Our adoption rate of our new customers adoption rate is quite high - 65 percent of new customers signing up for online banking. The number one transaction that people do online is balance inquiries, then transfer funds, then bill payment. Of our online customers, a smaller fraction use bill pay, but those who do usually do about 10 transactions per month. There is a \$4.50 per month fee for bill pay. That fee is waived for some customer accounts. I'd say 50 percent of our bill paying customers are charged the fee.

What are your online customers happiest about?

Our customers are happiest about the ease of access. They can check balances whenever they want. The convenience and simplicity of online banking.

What are they least happy about?

I wouldn't say that they are not happy, but that there are opportunities for improve. We want to add new functionality such bill presentment .We are looking at that going forward.

For either of the above, how do you know? Direct consumer feedback or surveys?

We do online surveys. We are planning to do focus groups and we have done some in the past. We are in close contact with our customer service center. This year we are going to do more usability studies as we go forward. We are going to be doing quite a bit more of that this year as we do enhancement s for products.

What role do you see for your site over the next two years: Customer service? Acquisition? Both? Why?

Online banking really helps us from customer acquisition and customer retention perspective. The customers we acquire and keep will do more business with us.

Online banking is expensive to support – it's not about per unit cost – as you open up more channels for consumers to reach the bank, you are not necessarily reducing cost.

What do you think will be the next “big thing” in online banking?

The integration of bill presentment and electronic statements is going to be the next biggest thing. We need to understand the economics of it and what customer wants and needs as we go forward with development. (Bank doesn't currently offer electronic statements.)

What are your biggest internal stumbling blocks to expanding online?

The biggest internal stumbling block really has been the need to integrate online products with the entire customer experience. Online banking has to be part of everything, the way we sell the product, the way the customer access the product, everything.

What are the biggest external stumbling blocks?

Most of our technology platforms are out-sourced and that becomes an external stumbling block to increasing and improving functionality.

Online Offerings?

You can submit application to open a checking or savings account online. We enhanced that this year. We offer ATM locators, tools for customers, planners, and Net banking online. In terms of lending, you can apply for a mortgage or home equity loan online.

I think our customers feel very secure. Bill paying customers are comfortable with the security and privacy in online banking.

Laura Schaeffer
VP and commercial services product manager
Umpqua Bank
www.umpquabank.com

Umpqua Bank is an Oregon state-chartered bank with 66 stores throughout Oregon and Southwest Washington. It has approximately 3,500 business customers on-line and approximately 500 Cash Management customers on-line.

How would you describe your bank's commitment to online products?

I would say we have a renewed commitment to it. The bank has just hired me and a couple of other product managers to assume responsibility for the online banking area. We've just signed a deal with S1 Corporation to upgrade our online banking products.

Why the enthusiasm (or lack of it)?

Umpqua Bank just acquired Centennial Bank, which was headquartered in Portland, OR, so we've improved our market reach. Centennial was primarily a commercial bank. We would like to grow beyond the Oregon market and online banking can be one of the primary delivery channels for that growth. Our commercial customers are interested in cash management services online.

What are your online customers happiest about?

We have not done any kind of formal survey of our customers. Our customers seem to like the bill pay feature. Commercial clients use online banking for bill payment, to originate wire transactions and ACH (Automated Clearing House) transactions. (e.g. payroll direct deposits)

What are they least happy about?

The upgrades are primarily for the commercial accounts. They will be getting advanced features such as state and federal tax payments, foreign wire capabilities, and a live interface with the bank so they generate transactions and be able to see them in the system at the same time the bank does.

Both on the consumer and commercial side, we are rolling out imaging services, so customers will be seeing bank statements and copies of their checks online. For consumer and commercial accounts, users can do account inquiry and internal transaction for free, and the imaging services are free. There is a fee for bill payment. For cash management services for commercial accounts there are additional fees.

We don't offer lending services online. Those features are on our horizon. We are working toward offering customers the ability to purchase other bank services online.

For either of the above, how do you know? Direct consumer feedback or surveys?

We do plan to do consumer surveys and focus groups. That's part of upgrading our offerings and our product management responsibilities.

What role do you see for your site over the next two years: Customer service? Acquisition? Both? Why?

I think both because we're expanding our service and improving it. We hope to be able to improve our penetration, especially on the commercial side. The bank is continuing to look for acquisition opportunities. Online banking can give us strong growth numbers.

What do you think will be the next "big thing" in online banking?

We're seeing more and more banks implement imaging services. They are moving away from paper. I think you will see more interactivity. You will be able to use online banking as a customer service tool, such as answering customer's questions online. More and more people don't come into the bank branch; they want to do more things electronically.

Is the bank continuing its commitment to other channels?

We have a call center in our headquarters in Rosenberg. Customers speak with a live person. There is a VRU option – voice response unit, if customers want that option. VRU is available after hours.

The bank continues to open new store locations. We are not moving away from the bricks and mortar approach. We are opening up as many channels as available.

What are your biggest internal stumbling blocks to expanding online?

Since we've purchased other banks, we are focused on managing the growth of the company. We are focusing on our existing products and improving those as well.

What are the biggest external stumbling blocks?

I think there is still a little bit of consumer reluctance. Both Centennial Bank and Umpqua have a customer base that is mostly seniors (50+). They are still a little reluctant to bank online. What we've done is made an Internet-connected computer available in Umpqua branches, which we call "stores." We serve our own branded coffee. People come in to surf the Internet and learn about Internet banking. They are able to ask questions of employees. Our banks are in smaller communities where everyone knows everyone. You will see people having coffee and checking their stock quotes. It's been well received.

Jim Smith
Senior Vice President, Consumer Internet Products
Wells Fargo & Company
www.wellsfargo.com

Wells Fargo & Company is a diversified financial services company with \$334 billion in assets, providing banking, insurance, investments, mortgage and consumer finance from more than 5,600 stores and the Internet (www.wellsfargo.com) across North America and elsewhere internationally.

How would you describe your bank's commitment to online products?

Wells Fargo is very committed to the online space. We view integration between all our channels from stores (physical bank branches), telephone, ATMs and online as important. It's what our customers are asking for.

Why the enthusiasm (or lack of it)?

It's customer driven. There is a huge amount of convenience in online banking. Once they start banking online, they start tell us that they can't live without it.

It is profitable to Wells Fargo to have customers use the online channel. (We don't disclose numbers on this.) It's a win-win situation for everyone. The customers that use online banking in conjunction with all the other channels have the convenience and we have a stronger relationship with our customers. Online customers have higher balances, buy more products -- investment products, loans, other banking products -- and are more loyal.

The financial services industry at its core has not changed in 100 years. At the core, it's about managing relationships. When we become a trusted partner of customer and build a very strong relationship with them, we both will win.

What are your online customers happiest about?

Customers are happiest about the ability to do banking anytime, anywhere. They can check statements, pay bills, order travelers checks -- all from one place. We have so many customers; there are probably 50 different segments within that. They may have different features they like.

Wells Fargo has 3.6 million active online customers -- more than a third of our total customers. We have a very high adoption rate of our customers to online banking. Forrester research found that a 10-15 percent adoption rate was average.

What are they least happy about?

We're always working with our customers. Our recent launch of online statements came from customers' feedback.

We do market research activities that ask the customers what are the things they want.

For either of the above, how do you know? Direct consumer feedback or surveys?

Absolutely customers ask us about what they want. The Internet has this powerful capacity for capturing customers' interest. We get a lot of feedback through thousands of e-mails per day. Many are account-related, but others are about features that the customer would like to see. We sift through those and take a look at trends.

We want to be there anywhere, anytime the customer needs us. So right now, we are working towards seamless integration across channels. For example, you apply for a loan in a store and finish up the application at home online.

We do focus groups, usability studies, surveys – that's all very critical if you want people to adopt your services. We put new things in front of users for them to try out because we know they are doing these activities from home without our help. Everything needs to be really easy to understand.

What role do you see for your site over the next two years: Customer service? Acquisition? Both? Why?

Both – it's a way to help our customers meet their financial goals. We don't want to be out there pushing products at our customers. We provide ways for them to access their funds and meet their financial goals.

At the core of banking is managing the relationship and selling the appropriate product. For example, on our site we have a retirement center, with information and tools for planning your retirement. At the end, there are products you can purchase from Wells Fargo. It's appropriately done, rather than bombarding the customer with ad banners.

What are your thoughts on using customer data?

Because the relationship is so critical, we only use that data when customer wants us to.

What do you think will be the next "big thing" in online banking?

It's the seamless integration of channels instead of looking at online banking as a standalone distribution channel. You will see other banks adopt online statements. There are other banks that offer it, but it's not sort of expected, to be able to turn off the paper from a checking account. In the credit card space, there are companies that do credit card statements online.

What are your biggest internal stumbling blocks to expanding online?

We were first on the Internet. I wouldn't say anything is easy. It's taken a lot of work to make online banking that is so easy and accepted by our customers. I think putting customers first is the key.

What are the biggest external stumbling blocks?

I can't think of any really.

Do you outsource your software?

We run everything in-house, but may purchase software. We use a combination, a mix of technology.

Are online bill payers more loyal to the bank? Do they have larger account balances?

Online bill payers are some of our best customers. They are more likely to stay and more likely to buy more products. They do call customer service less. However, all customers make use multiple channels. Our studies found that customers go into the branch about the same amount. They go to the ATM about the same amount. Online banking is an additive channel for our customers.

We have a little over 1 million bill pay customers.

Are you still cutting paper checks?

The vast majority of online bill paying transactions are electronic. But there are some cases where we are sending out paper. For example, I can send my niece a check for her birthday gift, through the electronic bill paying system and she receives a paper check.

How do you approach the marketing of online banking?

We have absolutely communicated with our customers through all of our channels – stores – ATMs or when they call in. We've used a number of things to communicate with them. We've been online for a while, so it's also commonplace for customers to come to Wells Fargo.com (the Web site) directly.

Mickey Goldwasser
Director of Marketing
Open Solutions Inc.
Glastonbery CT
www.opensolutions.com

Given technology and the market, is online banking where you think it should be?

Yes. I think it's an ongoing process. It continues to evolve. Institutions as well as consumers continue to use online banking. Usage is continuing to go up. However, it's probably slower than people thought initially.

Is it ahead of your expectations or behind? Why?

Online banking is behind expectations. Generally, not all financial institutions are offering it or promoting it. They are not marketing it or promoting it as a viable vehicle for their customers.

What are the biggest concerns of your customers (the banks)?

When you offer online banking, it becomes another channel for customers to use. But it's not that customers say, 'I can bank online, so I will put more money in the bank.' Banks are looking at ROI, because they can't charge for online banking, and their costs are going up.

Banks can charge for is bill paying (charges through transaction fees) but most everything else in retail Internet banking is free. Banks think it's a good thing to offer, but they ask 'where's the ROI?' On the commercial side, businesses use functionality that they'd be willing to pay for. You see a lot of banks really weighing the benefits -- customer retention, another channel of access -- against the costs.

I think there are a lot more positives than negatives -- among them are customer retention and additional service. There's a statistic about [Internet banking transactions or ATMs] that it costs under one penny per transaction versus over a dollar per transaction for teller transactions.

Solutions out there are very, very secure. Vendors know they have to address security, if they don't their products will fail.

What are the biggest concerns of consumers banking online?

With everything they read about in the paper, customers are most concerned about security. Customers want a secure environment and privacy.

Why aren't more people banking online?

We're seeing good growth of banking online. There's a multiplicity of channels in retail banking. I can go to the branch and see my favorite teller or I can pick up the telephone and bank by phone, or I can bank by mail. In the U.S., we have excellent communication lines, so banking by phone is convenient. Banks do a pretty good job allowing customers to access them through all channels.

More and more people are being to adopt Internet banking. The rate of adoption is growing, and that's going to have impact on customers. Their friends start saying, "You don't pay your bills online?"

Internet access is growing also. Everyday, people are becoming more and more connected.

As banks begin to promote online banking, more people will start to see the value in it.

What trends are you paying the most attention to? Why? What will their impact be?

Some of the things we're looking at are account aggregation, services designed for business, bill paying and bill presentment (your bills come to you via the Internet) and more and more usage.

We're looking at consumer Internet banking, business Internet banking, account aggregation, and cash management as well.

What do you think "the next big thing" will be in online banking?

The continued growth of online services and growth in the ability to apply for and get loans online. More and more adoption of online banking and the need for other services.

What do you believe bankers should be thinking about – whether they are or not? Why?

They should be thinking about how they can better serve the needs of their customers via the Internet banking product. There's a phrase – 'Get to know your customers.' That is one-to-one marketing. Banks should be tying into CRM products and offering timely, relevant, filtered offers. If you're married with kids and saving for college, they shouldn't be sending you information about vacation home loans. People don't mind getting offers as long as they make sense to them.

Often the banks say about Internet banking, it's on our checklist. We offer it. But they need to see it as a viable tool and a consumer benefit.

Some institutions say they have it and that's it. They are not actively promoting it. They should be marketing it, similar to what they did with the introduction of ATMs. They had people demonstrating them. They were marketing the benefits to customers and telling them how to use it. Some vendors charge banks per user, so if they get more customers using the online access, their costs go up. They don't market it. They say it's there for the customers who really want it. We charge a flat rate so banks can get as many users signed up as possible, and get they benefit from it.

Internet banking is another point of access, a very convenient point of access. It should be promoted to the customers.

Randy Riesenberg, VP of e-Services
John Schooler, Chief Technology Officer
USERS Incorporated
Valley Forge, PA.
www.users.com

Please give us a little background about your business.

John Schooler: Our customers are 330 credit unions ranging in size from \$5 million in assets to over \$4 billion. Credit unions have the option of maintaining their own data centers while running USERS' applications, or connecting in a traditional service bureau approach. (Note: Users has some larger credit unions that are service-bureau clients and some smaller clients that utilize the in-house method. The same software application is used with either approach)

Perspectives on online banking:

Schooler: Online banking applications "actually evolved much more quickly than other types of services in the past." ATMs and debit cards have been around for 20 years, and until recently "ATMs have always done pretty much the same thing. It took many years to add things like point-of-sale use for the cards and other features."

Randy Riesenber

g: USERS' first online applications were called Personal Credit Union (PCU), which was released in the 1997/1998 time frame. "People were basically looking for things that happened to their accounts, such as checking-account balances. The service grew to include inquiries. We added more and more member service representative functionality. We started adding transactions like bond purchases, transfers. Now it can include things like check imaging."

Schooler: "The first applications were static things that had already happened; then we added transaction-oriented applications. Now the product has functions that you really can't do anywhere else but over the Internet."

Riesenber is the product manager. "We can propose new applications, or we can do totally new types of things. Now it's just evolved into another channel. "

Impact of e-banking on clients and their customers:

Schooler: "I don't think we ever anticipated the excitement online banking would generate and that the demand would be as high as it would become. We have 180 clients running some or all of our online banking applications. Yes, it has moved faster than anticipated, but now we're educated and we are looking at any function our clients might want."

Costs savings realized by customers:

Schooler, referring to E-statements. "One client saved \$100,000 annually over paper statements. It's harder to quantify some of the transaction-level things. But what happens is that people reach out and touch you more often. Now people may look every day at their transaction records, or multiple times a day, so see what happened. If you

remember, ATMs were going to take people out of the lobby. They used to go to deposit their pay check and keep \$100 to last them. Now, people go once a day to take out \$20."

Even though a credit union is developing Internet Banking they need to also still focus on the more traditional channels. This is contrary to early predictions, i.e., a rise in electronic channel use doesn't result in a decline in existing channel use. Each new channel just becomes another option, and you tend to see the total number of transactions rise. For example one of our clients saw a 269% increase in their Internet transactions/inquiries over a four-year period. But for same period, teller transactions also rose 25%." (as did ATM and other channels, at different % rates).

What are the concerns of customers?

Schooler: "Security is certainly there at the top; we are doing more to demonstrate security with these applications and provide them with results."

Schooler: "Customers say 'I want to do everything over the internet that I can do at a branch.'" Convenience is also a big issue for end users. More efficiency; lot more of people focus. Many clients may have a pre-approval process for mortgages, but not a true mortgage application over the Internet. "I doubt many are closing mortgages over the Internet."

Are there any regulatory issues?

Schooler: "The NCUA is currently in the process of reviewing all vendors' E-Services. I know they have begun a round of that. But now there are also new Internet security firms that can perform more rigorous audits" that are used to test security.

Tell us about new applications:

Riesenberg: USERS is looking at e-mail, bill presentment and bill payment enhancements. Also "secure communications" which means "email via the website". Members submit messages via the Website, and then see a response from customer service the next time they log in to the site. Regular e-mail is not secure.

Riesenberg: Other types of instant communication tools are being considered. "There are three types of emails."

1. Event based emails (like password changed or e-mail address change)
2. Marketing or status (Tell me when you have a car loan sale or when my balance is below \$500.)
3. Notifications (Tell me when my e-statements are ready for viewing or tell me when a check bounces)

What's the "next big thing?"

Schooler: The next thing is going to be "expert advice" like retirement calculators. "How do we make that available? That's stuff I'm picking up from reading industry. We have such a sophisticated client base. I do think the account aggregation is going to come back. It's economic. The same thing with wireless. Nobody is asking for it now because

it is so expensive. If the brokerages start taking dollars (from banks and credit unions) and the economy is better, people will start asking for those sorts of things again. Bill presentment is one of those things talked about, but nobody has really figured out how to make it work."

Riesenberg: Credit unions are very real-time oriented. "Branding" is another new application USERS introduced to make its Internet Suite of products look the way customers want it to look. "It's a tool kit" that gives CU clients more flexibility to customize the look and feel of their interface. "Customers were extremely sensitive" about the static nature of the interface. Internet Suite includes: Personal Credit Union, WebLoan, Internet Bill Payer, e-Documents (e-checks, e-statements), Internet Branding. E-Mail Services and Live Chat Integration will be added later this year. Cross-Selling Manager is another new product. It can promote whatever products the credit union wants to promote. Internet Suite:

Riesenberg on new products: "We have to very rapidly evolve and enhance these products. As huge sites add sophistication, their member's expectation ratchet up." Other CU's say "'Gee, we have to be as rich and robust as they are.'"

Jay Nalley, Client Relations Manager
Jyoti Namba, Public Relations Manger
Digital Insight, Inc.
Calabasas, CA
www.digitalinsight.com

What's happening in online banking? Is there still growth?

Nalley: "A lot of people have adopted home banking. I don't think the market is fully tapped. We are working to help our customers increase the number of end users. If you look at potential of our client banks, there still is quite a ways to go before the majority of there customers are online banking users."

Namba: "Internet banking and online adoption has been on steady incline since inception. Every year it goes up. It 's a very slow and gradual increase with our customers and with consumers. When growth in adoption is slow it shows behavioral change. It is more of a trend than fad."

How do you think banks are looking at Internet banking?

Nalley: "Many banks looking at it from a relationship perspective. Typically, when someone signs up for Internet banking there is already a relationship – they took the effort to sign up, they've put payees into a bill pay module. There's a tie – it's more of an effort to leave the bank and go to someone else. There's a relationship."

Namba: "Customers are less likely to leave a financial institution once they've signed up for online banking. Online is easy, convenient, and a hassle to change. So they're comfortable and loyal once the relationship has been established. It is also a good cross-selling tool."

How have consumers reacted?

Nalley: "Consumers are the last to jump aboard anything. Industry and engineers are always ahead of the game. People like things the way they are because they have old habits. Banks have been around this discussion for the last 10 to 12 years. We find that small community banks are often very savvy about what they can do with online banking. The challenge for everyone is to figure out what can Internet banking can do for them?"

What kind of concerns do users have, in your opinion?

Nalley: "A lot of times, what you hear a lot from end users who aren't internet savvy is about security. That is especially true on the commercial side, where we have to talk through the customers concerns with security. Other than that, I don't know of online concerns that are customer or market related."

Namba: "Banks can be concerned about having to changing internal infrastructure. At DI we pride ourselves on not making them change. They'll have huge issues on back end, like loan processes. We work with financial institutions to reorganize back-office processes to go from handling 50 loans a months to 100 loans a month. A lot of our competitors just sell technology, others are more a partner."

Nalley: "I am hearing less and less about security as concern as people get more used to banking online."

What other trends are you seeing?

Namba: Customer focus is the trend with any technology. Namba used to work for a realtor and "the concern in the industry was that technology would replace realtors. It didn't happen. Instead, we got more educated customers who had researched houses, schools, demographics, etc. Realtors found they were much more effective selling what customers wanted. Online banking makes banks more effective in selling and helping customers."

"We plan to offer a new product with instant messaging and chat. We're finding as a technology leader that we like to include what consumers want in their products. So, customers will be able to talk with their financial institution from wherever they are. We want to bring trends in consumer behavior into online banking. We also want to offer wireless services."

Nalley: "Bill-pay is something people are using. It is not a new wave or new product, but more people are adopting it. Once you start using it, you can't imagine paying your bills any other way because it's so much easier. It is also our lending product – in two years people will be able to apply and obtain loans online. Since it's so paper intensive, it'll be a huge convenience."

Namba: "It's not banks pushing online payment, it's utilities and others who are forcing customers to pay online and that's driving a lot of the adoption. They want to go paperless so they're forcing customers into this. Customers feel like bank bill payment is the only way they'll have their control."

Nalley: The advantage of a bank bill pay system is you can pay all from one place, as opposed to going from site to site.

What should banks be thinking about?

Nalley: The most important thing to think about is that Internet banking should not be used as a defense mechanism. Banks should look at it in terms of soft-dollar savings.

Matt Ragas
Bank of America customer
Orlando, Fl.

What e-banking service do you use?

Bank of America's online service. "I've been using it for over three years. Before they put it online I was using their PC banking/dial-up service."

What do you like about it?

The most convenient thing is that I have checking and savings; I like being able to transfer money back and forth. It's convenience. I don't keep a balanced checkbook so I can see what's cleared and what hasn't. I also like that you can click on check number and seen a scanned image of the check.

Any dislikes, or things you don't use?

I don't use online bill payment. I would consider myself an early (technology) adopter, and I probably should explore it, but I don't trust that companies will get it right. I have that little trust issue.

Though, I also have a Bank of America credit card. and I can pay it off by transferring funds just to pay off the card. I love the ability to transfer.

What may a bank do to entice you to use additional services?

That's tough. I know they've made some offers, some free this or that, but it hasn't been strong enough. I don't think the incentive will come from the bank. The most compelling thing will have to come from the phone company or whatever. Something beyond pitching me on convenience. To me that is not strong enough to break my old ways. I think that is why online bill-payment has drastically lagged a lot of e-finance stuff. I suspect its one of those things that if I take the plunge I will probably be happy with it. It's a little bit of a fear factor. Like ATMs for some people. My mother only recently started using one of those.

Bill payment is not nearly as sexy a proposition as online brokerage. That's empowering you, there's a money making-incentive. Online bill payment – you are not going to make any more money though OK, you may save a little.

Anything else about the service you would like to mention?

These guys are constantly updating and tweaking the look and feel. I just wonder how many people they are confusing. There's a lack of consistency; so that's a little frustrating. I don't see how that can help them in something like online banking.

Another thing that's cool, but I haven't used yet, is the account aggregation stuff. I think that's neat. But I've not done it yet.

James R. Garrett, Jr.
Columbus, OH

How comfortable are you with PCs? With the Internet and Web?

I would say I am very comfortable both with PCs and the Web.

Do you do any online banking? For work or personal needs?

Yes, I use online banking for personal use.

What do you use online banking for?

I check the balance on my very meager savings account!

With what bank? Is this your primary bank?

Our credit union and yes, it's our primary bank

Do you pay any creditors directly through their online interfaces?

My wife does the most of our banking. I don't think we do, but we should.

Do you use PayPal?

Yes, we use PayPal on Ebay.

What convinced you to try banking online?

First it was the necessity, and then, I started using it for convenience

How comfortable are you with banking online?

I am very comfortable with it. We can do banking from our phones and I'm sure that soon we'll be able to bank from our TV sets.

What do you like most about it?

I like the convenience. Also, I don't have to pay for teller charges

What do you dislike about out, or are you uncomfortable with?

Nothing.

What could your bank do to encourage you to do more online?

They could make it easier to pay bills and NOT charge new fees for this service.

What's the message you're looking for from banks (i.e., security, convenience, etc.)?

None. I assume that money is secure, and thus, the process is secure.

What are your biggest turn-offs in advertising and marketing of online banking?

I really don't like pop-up ads and stupid messages from any on-line service provider.

Jack Rodeawald, Jr.
Wells Fargo Bank customer
Thousand Oaks, Calif.

How comfortable are you with PCs? With the Internet and Web?

Very

Do you do any online banking? For work or personal needs?

Yes, personal. I use it to transfer money and check account balances

Do you use PayPal? Do you use it like a bank account (keep money there, pay bills, etc)?

No

What convinced you to try banking online?

It was available

How comfortable are you with banking online?

Somewhat

What do you like most about it?

I like the fact there is no need to physically go out.

What do you dislike about out, or are you uncomfortable with?

Having my transactions out on the Web.

What could your bank do to encourage you to do more online?

Show me more security, plus no fees for checking, etc.

What are your biggest turn-offs in advertising and marketing of online banking?

I don't pay any attention to advertising.

Anything else you'd like to tell us?

Like some other folks, I feel that I still have more control over my money if I handle it physically. Never touching or seeing what I have doesn't "feel" right.

Martin Warfel
Trenton, NJ

How comfortable are you with PCs? With the Internet and Web?

On scale of 1 to 10 I'm probably an 8.

Do you do any online banking? For work or personal needs?

I do some online banking with my personal checking and also with American Express Financial Advisors.

What do you use online banking for?

Check account balances and some transfers.

Do you use PayPal? Do you use it like a bank account (keep money there, pay bills, etc)?

No.

Do you use an online bill-payment service?

Never really considered it. If 1st class postage keeps going up I may reconsider.

What convinced you to try banking online?

I think everything is migrating to online - why not banking?

How comfortable are you with banking online?

Again, an 8.

What do you like most about it?

Convenience.

What could your bank do to encourage you to do more online?

Nothing at the moment.

What's the "message" you're looking for from banks (ie, security, convenience, etc.)

Security is key.

Anything else you'd like to tell us?

As co-power of attorney for parents I now manage their check writing and balances. Online access to this information has been very helpful.

**Nancy Whited
Jackson, NJ
Provident Bank customer**

How comfortable are you with PCs? With the Internet and Web?

I am very comfortable. I've worked with computers since 1979. I first got on the Web about 10 years ago.

Do you do any online banking? For work or personal needs?

I do use online banking for personal accounts.

What do you use online banking for? (Paying bills, check account balances, transfer money, account aggregation)

I check my balances, make transfers and have my accounts in one place.

Do you use PayPal? Do you use it like a bank account (keep money there, pay bills, etc)?

I use PayPal because I sell on eBay, but I use it to buy and sell only, not like a bank account.

What convinced you to try banking online?

I wanted the convenience. I normally do phone payments, or I use the Web if my creditors have a site set up to do that.

I checked out the online bill paying options at my bank, but when someone doesn't take an online payment, they still type up checks and send them out. That turned me off.

How comfortable are you with banking online?

I am very comfortable. I am concerned about security, but I still use it anyway.

What do you like most about it?

I like the convenience. I can get updated information anytime.

What do you dislike about out, or are you uncomfortable with?

The security is uncomfortable. I use a cable modem at home. It's sometimes annoying when their server's slow. I found they must be doing some maintenance between 9 AM and 10 AM in the morning, so I don't go online then.

What could your bank do to encourage you to do more online?

What's the "message" you're looking for from banks (ie, security, convenience)?

I want to hear more about security and convenience. I would like to see the ability to pay all bills online truly without paper checks involved, but then I think that opens up more security questions.

What are your biggest turn-offs in advertising and marketing of online banking?

I don't have any.

Archie K. Miller
Wrentham, MA

How comfortable are you with PCs? With the Internet and Web?

I am very comfortable with PCs. I've spent about 10 years on the Web.

Do you do any online banking?

Yes, in fact, I do all my banking online.

For work or personal needs?

I do all my personal banking online now. I've been using Fleet Boston's Homelink for three years.

What do you use online banking for? (Paying bills, check account balances, transfer money, account aggregation)

I use Homelink for paying bills, checking account balances, transfers, and account aggregation. I don't get charged fees as long as I keep my balances in line.

When I was refinancing my house, I did the Homelink set up so I could have all my accounts linked together.

I do my bill paying online, but I don't set the bills up as recurring. Once I set them up, I can go in, click the items and pay them. About six years ago, I had my mortgage and car payments auto-deducted, but then I realized I'm not getting any discount doing it that way. The point of the online bill pay is to make it convenient for me.

With what bank? Is this your primary bank?

Fleet Boston is my primary bank.

Do you pay individual creditor's accounts online? (e.g. Amex, other major credit cards.)

Generally no, I don't pay them through their individual sites. There are times when I'll go to a major credit card's site, or the bank's that holds my car loan or home mortgage, but I usually don't pay them there, but I go to check my account balances.

Do you use PayPal? Do you use it like a bank account (keep money there, pay bills, etc)? If you don't, why not?

No, I don't use PayPal. It sounds like an extra step.

What convinced you to try banking online?

I had been using Quicken for five years. Using the Quicken online payment system and printing checks was such a pain. I looked at Homelink online, and it was a time when I was trying to simplify things in my life. Homelink looked a lot easier and less-time consuming. I realized how much time I save, when we had a problem and I had to re-do my set up. When we were on vacation this year, someone got a hold of our Fleet account card number and they used for online gaming. I had to do the set up again, which was kind of a pain.

How comfortable are you with banking online?

I am still very comfortable with it. I say ignorance is bliss. I purchase a lot of items on the Web, also. I do look for a secure server on the Web. I did about 80 percent of my Christmas shopping this year online.

What do you like most about online banking?

I can pay all my bills in 15 minutes for the whole month.

What do you dislike about out, or are you uncomfortable with?

I used to do it at work, because we have a big pipe at work. With a dial-up connection at home, it was a big hassle. Now I have a broadband connection at home, it's a lot easier. Banking sites, because they are secure, if you make a mistake, you get "locked out." That's time consuming when you are on dial-up.

What could your bank do to encourage you to do more online?

I use Bear Sterns for investing. But I've sold everything down to a couple of stocks and my retirement accounts. I've been wondering, 'Why I am paying for full brokerage services?' I've thought of using Quicken Reilly. For a little while Bear Sterns had a online product, but it's clunky.

You get a lot of paperwork to get from brokerage house. I almost don't want to look at it right now. But that's the power of Homelink -- you can have everything in one place -- Fleet mortgage, cars, and so on. I do have life insurance and my childrens' college savings with Northwest Mutual and I am getting paper statements now.

What's the "message" you're looking for from banks (ie, security, convenience, etc.)?

Banking is about convenience. As far as security, I don't think people worry about the security of money in the bank. You put money in bank so you can transact it.

What are your biggest turn-offs in advertising and marketing of online banking?

Fleet Bank has been pretty successful in way they've marketed Homelink. I think sometimes they oversimplify it, making it look like a sixth grader can do online banking. But I'm doing it

M.J. Shoer
Portsmouth, N.H.
Bank of New Hampshire customer

How comfortable are you with PCs? With the Internet and Web?

Intimate. We are on very good terms.

Do you do any online banking? For work or personal needs?

Yes, both.

What do you use online banking for? (Paying bills, check account balances, transfer money, account aggregation)

Checking balances and transferring funds between accounts.

Do you use PayPal? Do you use it like a bank account (keep money there, pay bills, etc)?

On occasion, for example, when making a purchase online that uses PayPal. I do not use it like a bank account or keep any funds there.

What convinced you to try banking online?

Ease of access to account information.

How comfortable are you with banking online?

Very.

What do you like most about it?

Instant access 24x7.

What do you dislike about out, or are you uncomfortable with?

Some of the fees. Banks should not be charging customers to do online banking as it greatly reduces the banks overhead. Their profit model is not customer friendly as it lowers their overhead AND charges new fees. That's good for the bank, but bad for the consumer. As a result I only utilize the free services.

What could your bank do to encourage you to do more online?

Provide the bill paying and enhanced services at no cost.

What's the "message" you're looking for from banks (ie, security, convenience, etc.)

Efficiency, fairness in fee structures.

What are your biggest turn-offs in advertising and marketing of online banking?

The fee structures.

Ken Maas
Braintree, Ma.
Sovereign Bank customer

How comfortable are you with PCs? With the Internet and Web?

Very much so

Do you do any online banking? For work or personal needs?

I use the online service that my bank offers., primarily to check balances and transfer funds between accounts

Do you use PayPal? Do you use it like a bank account (keep money there, pay bills, etc)?

I have used Pay Pal twice to receive funds from e-bay transactions.

What convinced you to try banking online?

Because it was there.

How comfortable are you with banking online?

I'm comfortable, but I am frustrated with the lag of information and data.

What do you like most about it?

The speed of transactions.

What do you dislike about out, or are you uncomfortable with?

As above, the lag between transactions taking place and being posted as detail.

What could your bank do to encourage you to do more online?

Eliminate the lag time between transactions taking place and being posted as detail.

What's the "message" you're looking for from banks (ie, security, convenience, etc.)

That they would prefer me to bank via this method

What are your biggest turn-offs in advertising and marketing of online banking?

That they think it is necessarily easy, and simple to use.