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A Discussion of

***Internet Banking: Developments and
Prospects***

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Internet Banking: Developments and Prospects, by Furst, Lang, and Nolle provides a benchmark and framework for analysis of Internet banking. The New York State Banking Department reviewed Web sites of banks headquartered in New York in March 2000 and in August - September 2000.

The results of these reviews can be used to extend current information about bank Web sites through comparison with the Furst, Lang, and Nolle findings.

Outline of Discussion

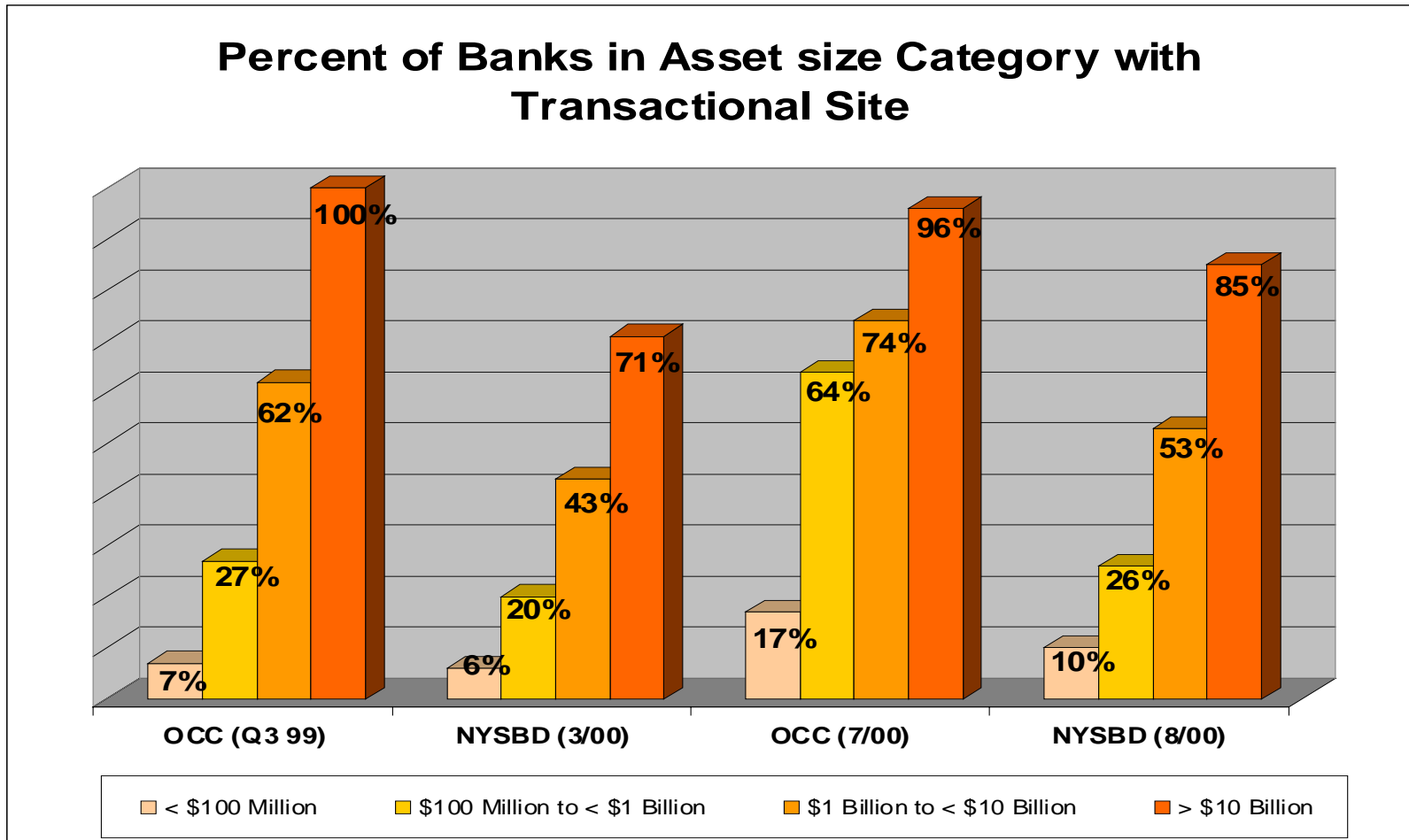
- Comparison of NYSBD findings with Furst, Lang, and Nolle characterization of bank Web sites
- Comparison of product offerings on New York State banks' Web sites with those on national Internet banks' sites
- Projections in Furst, Lang, and Nolle *vis-à-vis* bank Web sites in 2001

NYSBD results agree in main with those in Internet Banking: Developments and Prospects. However, we also considered non-transactional Web sites and looked at savings and commercial banks separately.

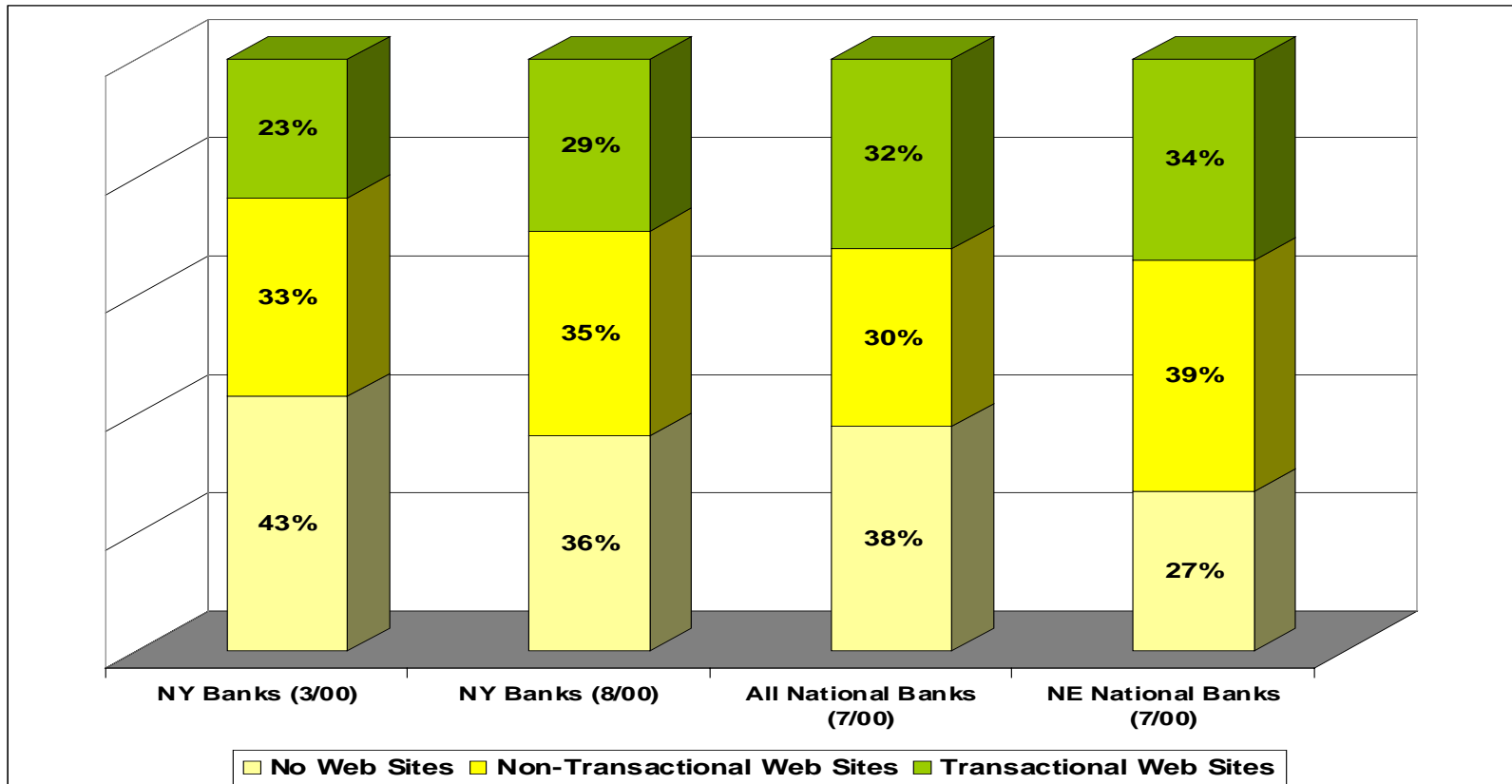
- **All of the largest national banks offered Internet banking, but only 7% of the smallest banks did so. Internet national banks held 89.2% of the assets in national banks, and 84.1% of the small deposit accounts.**
- **NYSBD found that 29% of NY headquartered banks had transactional Web sites in 8/00, 35% had non-transactional sites, and 36% had no Web sites. Banks with transactional sites held 89% of the assets in banks headquartered in New York.**

- **Savings institutions of all sizes were more likely to choose a non-transactional site than no Web site.**
- **In all size categories, a higher percentage of savings institutions chose a non-transactional site than commercial banks of the same size did.**
- **71.9% of small deposit accounts in New York were held by banks with transactional Web sites.**
- **Among savings banks, 51.8% of small deposit accounts were held by institutions with transactional sites.**
- **78.8% of small deposit accounts in commercial banks in New York State were in institutions with transactional Web sites.**

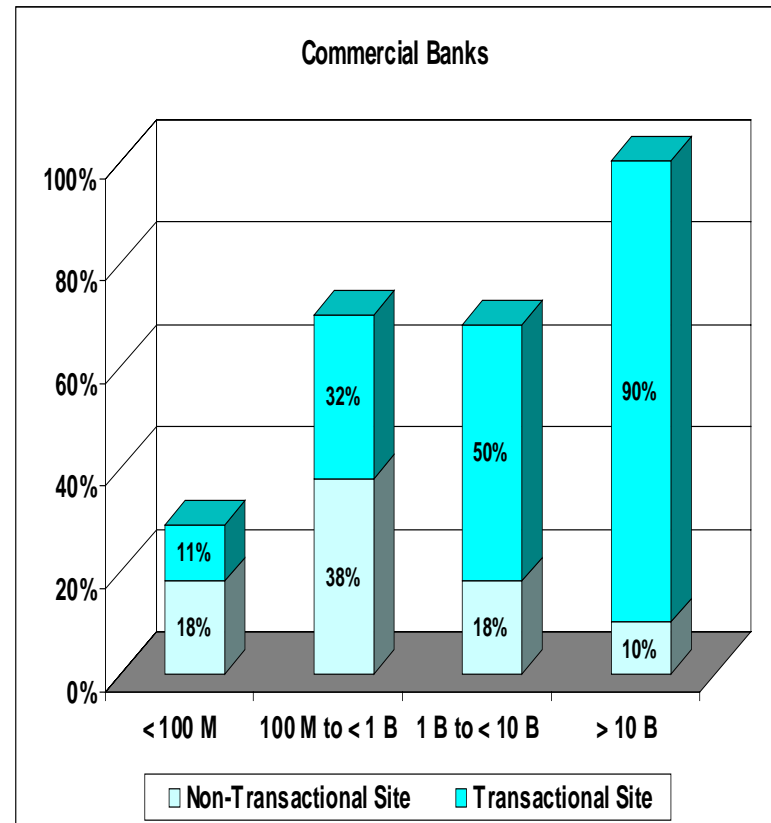
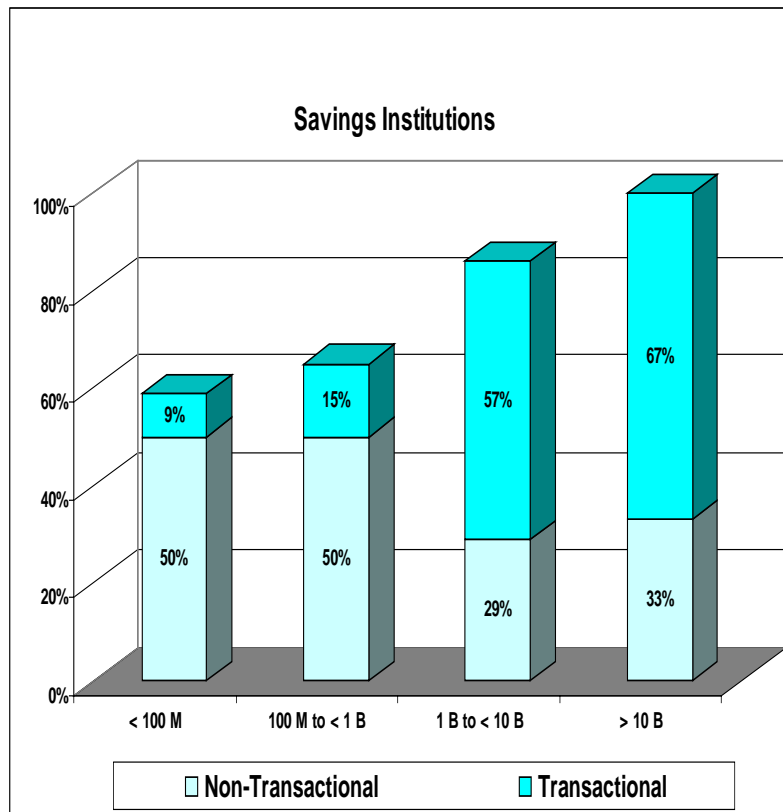
Large Banks Likely to Have Transactional Sites



Bank Web Sites (Q1 2000 - Q3 2000)

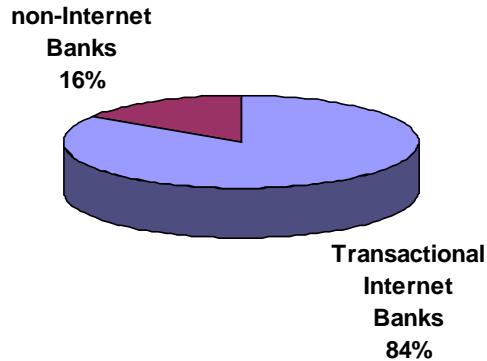


Web Sites of Savings and Commercial Banks

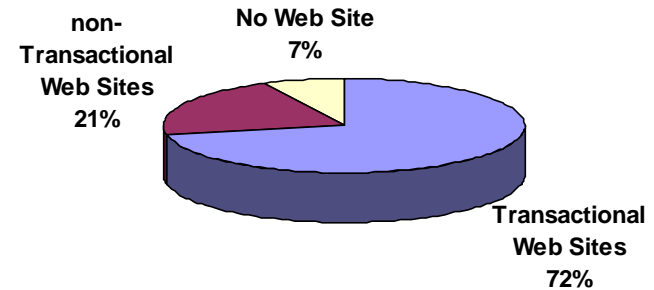


Market Share of Small Deposit Accounts

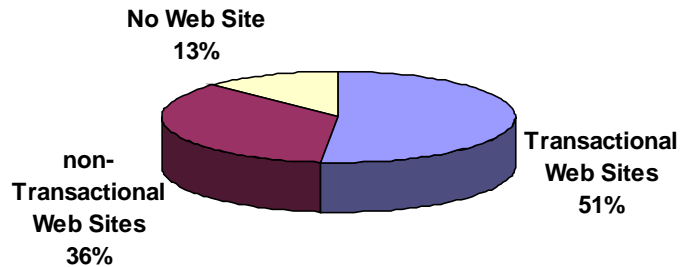
Furst, Lang, and Nolle: Deposit Accounts under \$100,000 Held by National Internet Banks, Q3 1999



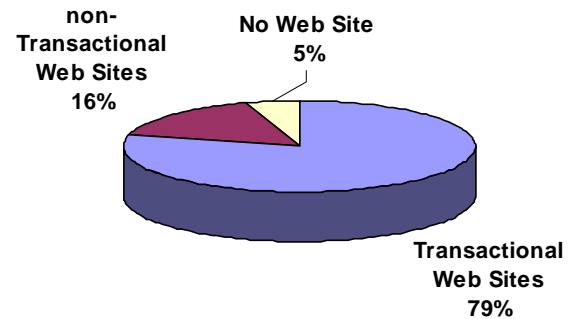
Deposit Accounts under \$100,000 Held in NY Banks in Q2 2000, According to Web Site



Deposit Accounts under \$100,000 Held by NY Savings Banks in Q2 2000, According to Web Site



Deposit Accounts under \$100,000 Held by Commercial Banks in NY in Q2 2000, According to Web Site



Furst, Lang and Nolle found significant differences between Internet banks and non-Internet banks in Q3 1999: Internet banks showed significantly

- ***greater percentage of assets in business and credit card lending in 2 out of 3 asset size classes***
- ***less reliance on deposits for funding and a greater use of purchased funds in 2 out of 3 asset size classes***
- ***greater proportion of income from nontraditional activities in all 3 asset size categories***
- ***different ratio of building expense to net operating revenue for 2 out of 3 asset size categories:***
 - ***higher for smallest banks***
 - ***lower for mid-sized banks***

Cont.

- ***differences in return on equity in all 3 asset size categories***
 - ***lower for smallest banks***
 - ***higher for mid-sized and large banks***
- ***for smallest banks, lower accounting efficiency***
- ***differences in credit quality in 2 out of 3 asset size categories***
 - ***higher for smallest banks***
 - ***lower for large banks***

However,

NYSBD research did not find significant differences at even a 10% level between mid-size banks with transactional Web sites and mid-size banks with non-transactional Web sites or mid-sized banks with no Web site when applying a difference of means test for the following financial ratios:

- *Deposits / assets*
- *Noninterest income / net operating revenue*
- *Accounting efficiency*
- *C&I loans / gross loans*

But, when this test was applied to the differences in these financial ratios for savings and commercial banks, all of the differences were found to be significant at the 1% level.

Furst, Lang, and Nolle reported that the largest Internet banks were more likely than small banks to offer a broad range of services online.

NYSBD found that products offered on NY Bank Web sites varied across types and sizes of institutions:

- ***small and mid-size institutions (those with assets less than \$1 billion) were more likely to provide product information and current rates and fees on their Web sites***
- ***half of commercial bank Web sites advertised investment products***

Cont.

- ***25% of savings institutions' Web sites offered insurance products, but only 12% of commercial banks did so***
- ***31% of commercial bank sites and only 9% of savings institutions' sites offer cash management accounts online***
- ***39% of banks with non-transactional sites offer telephone banking, while 71% of the banks with transactional sites have telephone banking***

Bank Web Sites in 2001

- ▶ **Many NYS banks are moving from non-transactional sites to transactional sites:**
 - **Between 3/00 and 9/00, 11 New York banks added transactional features to their non-transactional sites**
 - **Between 9/00 and 1/01, 9 more banks upgraded non-transactional sites to transactional ones**
 - **As of 1/01, 3 savings banks with non-transactional sites plan to have transactional sites in Q1 2001**

- ▶ **Reports of customer usage of online sites vary:**
 - **only 3% of US households currently manage their bank accounts online (*Financial Times* 2/20/01)**
 - **According to an OCC news release in 10/00, the majority of national banks with transactional Web sites have less than 10% of their online customers as regular users**
 - **The largest banks report high usage of their sites:**

- **Bank of America reported in 1/01 that it had reached a total of 3 million customers online (more than 20% of its client base) and that it continued to sign up 130,000 online customers a month**
- **Wells Fargo & Co. claims 2.5 million online customers**
- **Citigroup reports 2.2 million online customers globally**
- **First Union Bank has 1.7 million online customers**
- **J.P. Morgan Chase & Co. said it has more than 750,000 online banking customers**

Developments in 2001

¶ *Bank Web sites as portals*

¶ *Account Aggregation*