



The Internet Banking Horizon: Bleak or Bright for Community Banks?

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As the sun goes down in a small Texas town, a customer of a small community bank logs onto the bank's Internet banking system to pay bills. According to industry experts, this remote online banking customer is certainly not alone. More and more consumers are banking on the Internet, and so are an overwhelming number of businesses of all sizes.

Why, then, do industry opinions and predictions about the future of Internet Banking vary so dramatically? On which statistics should bankers base their Internet purchasing decisions? What's smoke and what's fire in this new, blazing industry? This is a looming concern in the minds of today's bankers, especially community bankers, striving to remain competitive in a rapidly changing banking landscape. The mega-banks in the industry have been online for some time now, and many community banks have followed suit with transactional websites. According to American Banker, more than two-thirds of the 227 transactional Websites counted in June of 1998 by the FDIC are offered by banks and thrifts with assets of less than \$500 million. While this remains a small percentage of community banks (there are over 10,000 in the U.S.), the rate of adoption of Internet Banking does not seem to be subsiding at this point.

Growth of E-commerce

The growth of electronic commerce as a whole speaks volumes about the potential growth for Internet banking in particular. By the end of 1997, 10 million people across the United States & Canada made purchases--from airline tickets to books and automobiles--on the World Wide Web, up from 7.4 million people just six months earlier. According to Forrester Research, 43% of United States households have PC's, and demand is growing among low-income consumers. In addition, 25% of United States households now have Internet access. The U.S. Department of Commerce also reports that Internet traffic is doubling every 100 days, and business use is growing fastest. As consumers and companies become more familiar and comfortable with making purchases online, this increase in knowledge and comfort level will benefit banks by bringing more retail and commercial consumers to their virtual branches. Even smaller banks and rural institutions will see more consumers moving online to take advantage of Internet convenience.

Industry Predictions

Business-to-business commerce on the Internet is expected to grow forty-fold, from \$8 billion in 1997 to \$327 billion in goods and services traded between companies, by the year 2002, says Forrester Research. Mentis Corporation predicts that by the year 2000, an estimated 50% of all banks and 40% of banks with less than \$1 billion in deposits will offer online services to their customers. The FDIC estimates that the number of financial institutions with transactional websites will increase by more than 50% by the year 2000. According to some industry sources, however, the future is not so bright. Only an estimated 4-5% of online surfers currently bank on the Internet. In addition, a recent poll by PSI Global found that out of 1,000 online users who do not bank online, only 29 percent believe that

online banking is safe. This perception from consumers merely tells banks that educating consumers on the safety and risks involved in Internet transactions is key to attracting and retaining more online clientele. Despite the message from industry soothsayers who predict that industry growth and consumer acceptance of Internet banking is still decades away, Internet banking continues to spread like wildfire.

Successful Adopters

Stillwater National Bank, Oklahoma's sixth largest bank and a wholly owned subsidiary of Southwest Bancorp, Inc., recently adopted an Internet banking solution and has been able to sign up commercial Internet customers much more quickly and easily with their new Internet banking service than the previously had with a dial-up PC banking product. State National Bank of Big Spring, located in Big Spring, Texas, adopted Internet banking as a sound business channel early in the game. In 1996, they began planning a full-scale Internet Banking strategy to service retail and commercial customers. In addition to acceptance by about 15% of its current customer base, State National cites other highly positive results such as a decrease in operational and transactional costs, an increase in staff productivity, and enhancement of the bank's reputation as a technology leader. Both Stillwater National Bank and State National Bank use the Internet Banking System designed by Q-UP Systems, a leading Internet banking provider based in Austin, Texas.

The advantages witnessed first-hand by banks such as State National pinpoint a significant incentive for smaller banks to go online. In addition to staying competitive with larger banks, the Internet holds tremendous potential for cutting costs in terms of operations and transactions. Booz, Allen & Hamilton found that costs per transaction via the Internet are significantly lower than those via different touchpoints, with a breakdown as follows: \$1.07 in a physical branch; \$.54 over the phone; \$.27 at an ATM; \$.02 with a PC-based dial-up; and \$.01 over the Internet. Other sources claim the cost of an Internet transaction ranges from \$.01 to \$.07.

So what's the final word on Internet Banking for community banks? It definitely has yet to be heard. Meanwhile, as the sun comes up in a small U.S. town, more and more consumers are logging on to their favorite banks on the World Wide Web.