

AMERICAN BANKER[®]

THE FINANCIAL SERVICES DAILY

Friday, October 31, 2003

VIEWPOINTS

Why Small Banks Have Failed To Reap Full Benefits of Web

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Flash back to as many as six years ago, and most bankers can recall sitting through presentations where they heard the now-(in)famous promises regarding Internet banking.

Many saw research reports like the 1997 Booz Allen Hamilton study that first highlighted the high cost of delivering routine banking services via traditional channels and the much lower cost of utilizing the Internet — approximately \$1 per transaction at the teller, vs. 8 cents on the Internet.

While it is a given that many larger financial institutions are heading toward the promised land of lowered costs for routine transactions delivered via the Internet, community banks have not been able to achieve the full promise of this highly efficient channel. Many Internet banking products and services have been around for more than five years, but the adoption rate among customers of community banks is still quite anemic and hovering around 10 percent.

Community banks are unable to achieve savings because they have been forced to outsource their Internet banking. Until community banks begin to take ownership of the Internet banking channel, the same way they control their physical branches, they will never be able to drive those transaction costs down to the levels they were promised in those dot-com presentations of the late 1990s.

The customers themselves are also inhibiting the cost efficiencies associated with Internet banking. Customers of community banks — by and large — have been dissuaded from adopting Internet banking because many community banks, in some form or fashion, still charge for it, and consumers are not willing to pay for routine banking services.

As long as they have to pay incrementally for each customer they add to their Internet banking service, and as long as they have to pay to market the service, banks will remain reluctant to embrace or fully exploit the opportunity of this highly efficient and effective channel. The current offerings, with their transaction-based pricing structures, are cost prohibitive.

There is, however, a more subtle problem community banks have with Internet banking products and services. There is a tendency among providers to try to be all things to all people (i.e., the same product that's designed for a de novo is also designed to work for a billion-dollar bank). There is a great deal of bells and whistles inside most Internet banking offerings today that are not practical to the average consumer.

The average Internet banking user wants to get in, perform a simple transaction, and get out. Why offer fluff and sizzle if the most your customer is trying to do is obtain a balance for that day? In order for bankers to achieve the promise of this lower-cost delivery channel, they have to

have a channel that reflects what customers want to do at a cost-effective price.

The promise of this electronic medium is still very easy for banks to achieve if they're presented with something that allows them to control the economics, the features, and the services that are delivered through that channel. Banks have to be able to control how they can make changes, monitor security, and ensure the privacy of their information. They need to know that the ability to be flexible and fluid is not going to come with a huge price tag.

Banks can already control and change things like how they staff their teller lines in order to accommodate peaks. They need to perceive the Internet channel as having the same kind of flexibility they see in their teller lines.

The promise is still very real and very attainable. For bankers to fully exploit the power of the Internet as a cost-effective delivery channel, first they must look at the basis of the promise. On an apples-to-apples comparison, the promise is based on shifting routine transactions out of the branch and into the home. Second, bankers must understand the importance of achieving high adoption rates and controlling their variable costs. Third, they must keep the offerings simple. Convenience is what the customers want; simplicity is what they need.

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