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## COVER STORY

# Exploiting Opportunities for Revenue in Internet Banking

■ BY KAREN EPPER HOFFMAN

During the past dozen-plus years, Internet-based financial services have moved from simple deposit account inquiries to a variety of activities, from cutting-edge to mainstream, according to the preponderance of research and bankers' and researchers' anecdotal experiences.

The question remains though — now that the Internet has become firmly established as a place where people can, and want to, do almost anything they would inside a branch — where will it evolve from here?

For most banks, especially those early to the Internet, the rapid growth in adoption of online banking has slowed since the late 1990s and early 2000s.

At **Bank of America Corp.**, the nation's biggest banking company, more than 50% of retail customers — 30 million of the 59 million overall consumers — are connecting with the bank online. Still, Jamie Armistead, a user experience executive at Bank of America, says the online channel "has not [reached] a plateau. We are nowhere close to done with the online banking space."

It is clear that Armistead is not alone among bankers in seeing an opportunity to broaden the medium. Bank of America, along with institutions big and small, has already branched out with online offerings into social media, personal financial management and delivering similar electronic services to mobile devices.

But even within the conventional online banking interface, industry observers say there are opportunities to expand the depth and breadth of online services and garner greater use (even among technological laggards). Perhaps most importantly, they see the chance to derive new revenue from this medium, which



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has long been more of a cost center whose value lay predominantly in improving retention at a lower delivery cost.

Here are several examples of technologies and services — both relatively new and long-existing ones that are gathering interest among an increasingly willing and Internet-savvy banking audience — that many financial institutions are beginning to leverage more aggressively online to gain ground while cutting costs and boosting revenues.

### NEW PAYMENT FEATURES

Integrating payments features beyond plain-vanilla basic bill payment, such as expedited payments and peer-to-peer payments, is a major avenue of growth for the future, according to online optimists.

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Online bill payment has gained fairly broad, though not totally saturated, acceptance among online banking customers. But according to banks and research firms alike, growth is slowing. The growth rate for online bill payment originated through bank Web sites fell from 18% in 2007 to 13% in 2008 and is expected to have been just 8% once this year is in the books, according to Boston's Aite Group.

On the other hand, the number of financial institutions offering expedited payments — also known as last-minute payments — has more than doubled in the past three years, from 1,000 in 2006 to nearly 2,500 in the first half of 2009, Aite said.

Though expedited payment has been offered to, and used by, consumers for years, such phone and online-based services have typically been run by the billers themselves, and they have been the ones to reap the service fees that consumers typically pay for the privilege of having their payments credited immediately. Now, with many Americans out of work or enduring other financial setbacks due to investment losses and the like, people oftentimes cut their bill-paying closer and closer.



Union Bank's Sears sees people's attitudes turning 180 degrees to "a perception that [expedited or P2P payment] would help them avoid fraud."

"Expedited payment is something we're [making] easier to do," says Armistead. "There's definitely an appetite in the market for accelerated payment."

Javelin Strategy and Research would concur: The Pleasanton, Calif., consulting firm found that 41% of consumers have initiated an expedited payment, according to Mark Schwanhauser, an analyst there. And he said he expects use to rise greatly,



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especially based on the appeal he believes real-time payment has to the generation that reached adulthood around the year 2000, the so-called Millennials.

"There's a great demand for more money monitoring and money movement capability," he said. "Most people are taking the ability to move money any time and anywhere they want for granted."

**Wells Fargo & Co.** teamed up with **Western Union** in July to begin offering expedited payment to its online customers, says Stephanie Smith, a senior vice president in Wells Fargo's Internet services group. The San Francisco banking company has more than 16 million active retail online banking customers, and nearly 4 million customers using online bill payment.

"We understand that under current economic circumstances, consumers are managing their budgets more closely than ever and are looking for options that allow them to pay bills quickly, conveniently and without incurring costly late charges," Ranjana Clark, an executive vice president for global payments and global strategy at Wells Fargo, said in a July press release.

Even smaller banks are beefing up their online banking offerings to include more payment options. Travis Sears, a vice president and electronic banking manager at **Union Bank and Trust**, a \$2.5 billion-asset bank based in Lincoln, Neb., says his bank's deeper penetration into electronic payments is part of an overarching trend to automate all the bank's payments. (At present more than 70% of the bank's payments are sent through the automated clearing house and require no paper.)

Sears also said he sees consumers' perceptions turning 180

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degrees from an earlier distrust about and suspicion of online payment mechanisms to “a perception that [expedited or P2P payment] would help them avoid fraud or scams.”

Bill Ready, the president of **iPay Technologies**, an online bill payment vendor that serves 3,600 financial institutions, says he is seeing much more interest from his bank clients (ranging from large banks like **Capital One Financial Corp.** to community banks such as Union Bank and Trust) in better integrating the capacity to do both expedited payment and peer-to-peer payment into a bank’s online bill payment service.

Banks and vendors are getting better at making the process more seamless and faster for retail customers, he said, which makes it easier and more compelling to sign up for such services rather than go elsewhere.



Bill Ready, president, iPay Technologies, says iPay handles customer service for 90% of the banks to which it supplies its online banking platform.

A recent example: The banking and payments processor **FIS**, formerly Fidelity Information Services, announced in early November a deal to integrate **PayPal**’s market-leading P2P payments system into its own online bill payment application.

“We’ve seen a growth in expedited payments . . . , people making more late payments as [they] fall out of work,” Ready says.

His Elizabethtown, Ky., company supports roughly two-thirds of the 2,500 U.S. banks and credit unions that offer expedited payments, and more than 900 financial institutions use iPay’s peer-to-peer payment product. (Both these applications are integrated with the traditional online bill payment application within a bank’s online banking service.) Despite the typical \$5 to \$15 fee charged to make an expedited payment, Ready says, he is seeing “phenomenal growth” both in terms of how many banks offer it and how many people use it.

## LIVE CHAT

Armistead says Bank of America has been doing online chat for years and lately he has seen a “huge shift” from the call center to live chat for customer service.

“There’s still a huge opportunity [to] migrate customers to chat and alerts from using the phone,” he says, adding that the chat function will become more appealing to customers as the bank integrates more budgeting and tracking within the online banking interface. “All of this represents a tremendous opportunity for cost savings,” he says.

Schwanhausser, the analyst at Javelin, did not have data on the cost per connection for a live chat, but he says that a call to a live customer service operator costs a bank about \$10; an interactive voice response, 30 cents, and an e-mail, 2.5 cents.

Wells Fargo introduced live chat online for its home equity account application this summer, Smith says, and so far is “very pleased with the results.”

Ready says iPay, which handles customer service for 90% of the banks to which it supplies its online banking platform, says banks more recently are “strongly promoting customer online chat.” His company has been offering the service since 2001, and though he said that the technology has not radically changed in the eight years since then, he believes people’s comfort level has.

“People’s behavior has changed,” he said, referring to mainstream consumers. “They now view it as more efficient than making a phone call” since there is typically no time on hold and their questions are answered more quickly.

## WEB ACCOUNT OPENING

The ability to apply for and open accounts online is another area of expansion online. Online account opening has been available at some institutions for years but has not always attracted customers who still opt to trek to branches to open accounts. However, as institutions get better at integrating research, service and support with the account-opening process and make it more streamlined, they are seeing growing interest in this more efficient channel.

After some experimentation and connecting with customers, Smith says, Wells Fargo was able to significantly shorten and simplify this process — ultimately creating a universal online application that can be used for 80 of the bank’s products. The San Francisco company reduced its online credit card application form from 11 pages to just one, she said, and “applying for a deposit

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Ready said he believes that, though online account opening has not yet caught fire, it will become a “requisite part of [banks’] online offering” in the short term. Though many customers still favor branch visits, he said, “more and more consumers are not willing to go into a branch” even to open accounts.

Underscoring his point is a survey released this fall by the **American Bankers Association**, which found that one-quarter of all bank customers prefer to bank using the Internet — making the Internet more popular than any other delivery channel at this time. (The survey of 1,000 consumers was done for the ABA in mid-August by Ipsos-Reid, an independent market research firm.)

With greater regulatory pressure on banks to reduce overdraft and ATM fees and at the same time derive more income from deposits than loans, Schwanhausser says he believes that, despite the maturing of the online channel, banks will focus more on its potential to help them reduce costs and generate new revenues.

One of their greatest challenges, he pointed out, might simply be to persuade customers that going online is worth the time. Recent research by Javelin says that 36% of consumers who do not bank online simply do not find it worth their while. “There are still holdouts who don’t find it valuable,” Schwanhausser said.

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