Chapter XVIII

The Trend Toward Online Banking Services by Brick-and-Mortar Institutions: The Last Five Years

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Five hundred financial institutions in the United States were randomly sampled each year for five consecutive years in order to examine Internet participation, both evident at the time of the survey and planned by the selected financial institutions. Each year the selected institutions were surveyed regarding the existing involvement of their institution with online banking and that institution’s Internet plans for the following two-year period. This study examines changes over time in the responses of the surveyed institutions. The results show that, over the study period, the percent of respondents that had or planned an Internet present within two years of the survey increased from 52% in 1996 to over 90% in 2000, and that the number of online services offered to customers is increasing.

INTRODUCTION

During the last several years, e-commerce has emerged as a growing, apparently indomitable method of doing business. Some organizations have been founded solely as Internet companies (for instance, Amazon), while others have begun to cater to Internet-savvy customers by providing online retailing (for instance, K-

Mart) and service sites (for instance, Hewlett-Packard). The financial industry has followed suit, spawning both Internet-only banks (for instance, National InterBank) and Internet sites to supplement brick-and-mortar financial institutions (for instance, Bank of America). This study examines randomly selected traditional financial institutions over a five-year period for their usage of Internet technology and their intended usage in the near future.

BACKGROUND

Cyber Dialogue, an online market research company, reports that the number of people who conduct their financial transactions online is expected to more than triple in the near future, from 6.9 million in 1998 to 42.2 million in 2002 (Totty, 1999). Klinkerman (2000) estimates that 20% of household banking will be conducted online by 2003, and that half of retail banking transactions will be influenced by online information by the same year. The Internet is leveling the playing field among financial institutions and is allowing smaller financial institutions to become increasingly active and to provide an unprecedented array of services for customers. With partnerships such as FundsXpress Financial Network with CUNA (Credit Union National Association) and organizations such as Concentrex providing Internet banking solutions, these smaller institutions can offer a full array of online banking to their customers regardless of physical location or traditional banking hours.

Financial institutions, particularly community banks (generally non-corporate, local institutions), are recognizing almost limitless marketing opportunities available in cyberspace. Fiore and McDonnell (2000) estimate that 1200 financial institutions were online by June 2000; by 2003, more than 15,000 are estimated to be online (Fiore and McDonnell, 2000; Bielski, 2000). Clearly, the question has changed from whether services will be provided to what services will be provided and when.

Many financial institutions are developing sites that provide extended banking services in addition to more traditional services. Many Web sites are available through which to apply for small business loans and home mortgages (for example, Lending Tree). The First National Bank of Pryor in Oklahoma was reported to be using its Web site to offer small aircraft loans and provide information on the general aviation market (Bagwell, 1997). In 1995, Salem Five Cents Savings Bank became the first bank in New England to introduce Web-based banking services. It is now planning to offer free Internet access to anyone. Salem has identified a niche in the Internet banking arena (Power, 2000), but the largest Internet operation belongs to Wells Fargo. It grows by 100,000 customers a month and boasts 1.7 million active online users, which represents 25% of the bank’s retail checking households (Power, 2000). Citigroup is extending its offerings to include the ability to access banking services from a variety of communication devices, including cell phones, PDAs, pagers and interactive television (Schmerken, 2001).
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