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FleetBoston Financial: Online Banking

On a warm fall day in 2000, Bob Hedges, managing director of FleetBoston's Retail Distribution Group (RDG), was walking in downtown Boston returning to his office from the John F. Kennedy Library and Museum on the Boston Harbor waterfront. Hedges had just participated in a company-sponsored meeting, where over 100 Wall Street analysts gathered to learn how FleetBoston was taking on the challenges and seizing the opportunities of the new economy.

Hedges was feeling good about his company's e-commerce strategy. Weeks before, FleetBoston had enrolled its one-millionth HomeLink online banking customer, and had officially launched its new customer segment oriented Web site. FleetBoston, Hedges thought, was very quickly becoming regarded in the same tier of Web-savvy competitors as Wells Fargo and Charles Schwab. As Hedges waited for the light to change, a senior couple walked up next to him. Hedges watched as the woman talked on her phone while she deftly manipulated her PDA, and the gentleman unfolded a street map. When her conversation had ended, she turned to Hedges and asked for his recommendations for online information regarding Boston. She flipped the antennae of her Palm, and was soon surfing the Web, checking Hedges' suggestions. The light changed, and the woman obliged and turned to Hedges:

Thanks for the suggestions; they were very helpful. We are touring New England, and this is our first visit to Boston. I don't know what we'd do without our cell phone and wireless Palm. We're retired, and these devices make traveling so easy. Now, wherever we are, we can log on, make hotel reservations, get directions, and send e-mail to our grandchildren. I can't imagine getting as far with old Harry here and his map.

Hedges laughed, but his relaxed feeling began to fade as he reflected on this brief scene. What he had just witnessed was how the speed and transformation of technology was changing how this couple lived. Hedges knew that the effects of such technological change were pervasive in retail banking as well, but banking was still at times wrestling with moving at the speed that current technology demanded. How would new technologies change retail banking? How should Fleet's retail bank respond?

Hedges finally crossed the street. As he watched the couple turn the corner, he realized that today's analyst review of FleetBoston's e-commerce programs was necessarily only the beginning. He knew that to become a true leader in retail banking, the company needed to continue to act with a strong sense of urgency. Meeting the challenges of a rapidly evolving competitive and technological marketplace was going to be an ongoing process.

Professor Frances X. Frei and Research Associate Hanna Rodriguez-Farrar prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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FleetBoston Financial Corporation¹

Fleet Financial Group and BankBoston Corporation established the foundations of FleetBoston. In October 1999, Fleet, the ninth-largest bank in the United States, and BankBoston, the fifteenth-largest bank, merged to form FleetBoston Financial Corporation (NYSE Symbol FBF). The combined company brought together Fleet's successful set of retail, money management, and commercial capabilities with BankBoston's nationally recognized corporate, investment, and global banking businesses to create a global diversified financial services company with 20 million customers in more than 20 countries and territories around the world.

Fleet had its origins in Northeast commerce and industry building; its history included financing projects such as the Erie Canal and the expansion of U.S. rail lines. Industrial National Bank, the most recent predecessor of Fleet, became one of the first banks in the country to form a bank holding company, enabling it to acquire non-bank entities. For the next 50 years, the bank that would become FleetBoston grew through mergers and acquisitions with both banking and non-banking companies. In the 1970s, CEO John J. Cummings directed the company and mentored Terry Murray, who succeeded Cummings in 1982 and led Fleet through the 1990s.

Two mergers significantly increased Fleet's assets. In early 1988, Fleet merged with Norstar creating Fleet/Norstar Financial Group. The merger doubled Fleet's assets. In the second merger in 1991, Fleet/Norstar acquired Bank of New England, expanding Fleet/Norstar by 40 percent. The acquisition made Fleet the largest bank in New England. In April 1992, "Norstar" was dropped from its name, and the bank was renamed Fleet Financial Group. Other acquisitions in the mid-1990s expanded Fleet's business, and Fleet reengineered operations to gain efficiency and curtail overhead costs.² A steady pattern of earnings growth was established.

BankBoston, originally called Massachusetts Bank, was founded in 1784 and became the country's first independent bank. In 1903, a merger with First National Bank of Boston doubled the assets of Massachusetts Bank and set the stage for substantial growth both domestically and internationally. The ensuing years witnessed expansion into Argentina, Britain, and Russia. Throughout the 1970s, 1980s, and 1990s, Bank of Boston acquired numerous banks, strengthening its position in New England. After the acquisition of BayBanks (a New England retail bank) in July 1996, Bank of Boston became BankBoston. In 1998, Robertson Stephens, the West Coast-based high-tech investment bank was acquired. The new company, directed by Charles K. Gifford, became firmly established as the second largest bank in New England, with a strong regional reputation and global capabilities.

By 2000, FleetBoston Financial Corporation was a strong financial services company. No business line contributed more than 20 percent of its total earnings. With operating earnings of nearly \$3 billion in 1999, FleetBoston was the eighth largest bank in the United States, with \$178 billion in assets and a market capitalization of \$40 billion.³ (Exhibits 1 to 5 provide selected financial information.)

¹ The histories of Fleet and Bank of Boston prior to the 1980s were drawn and adapted from John Spiegel, et. al., *Banking Redefined: How Superregional Powerhouses Are Reshaping Financial Services* (Chicago: Irwin Professional Publishing, 1996) Chapter 14, pp. 301-359.

² Credit Suisse First Boston Analyst Report, March 18, 1999, p. 25.

³ BankBoston stockholders received 1.184 shares of Fleet stock for each BankBoston share. Fleet stockholders owned 62 percent of the new merged company with BankBoston shareholders possessing the remaining 38 percent. In the end, Fleet paid 3.2 times the book value of BankBoston, which, at the time, was \$4.9 billion. The Fleet-BankBoston merger had anti-trust law implications; thus, FleetBoston sold nearly 275 branches in Rhode Island, Connecticut, and Massachusetts. This divestiture, the largest in banking history, gave banks outside New England, specifically Sovereign Bank of Pennsylvania, access to the New England market. Fleet planned to sell \$10.5 billion in deposits and cut 5,000 jobs in the hopes of creating

A Brief History of Retail Banking

For 50 years, into the early 1980s, banking had a business paradigm based on regulatory guidelines and constraints intended to ensure competitive and operating stability. Regulations drove product, pricing, place, and promotion decisions. Banks were greatly restricted in their ability to compete freely against the criteria usually considered relevant by Wall Street. Their market shares were fragmented and controlled. Pricing regulations set revenues, and regulated revenues set the context for cost management.

Throughout this period, however, important environmental forces were at work eroding the banking industry's traditional business model. Outside the structure of banking regulation, non-bank competitors offered product and service alternatives to banks and were able to attract consumers. For example, Merrill Lynch's Cash Management Account (CMA) combined money market mutual fund rates with check-writing ability, credit card access, and brokerage account privileges. New products such as CMA gave consumers an alternative for financial services traditionally associated with banks. At the same time, new and changing technologies also put pressure on the banking industry. By competitive necessity, non-bank competitors such as GMAC and AT&T Universal Card learned to develop and implement effective non-branch distribution systems, and by doing so succeeded in taking market share away from banks.

Changing financial markets, new competition from non-bank competitors, and rapid development of technology altered market performance and consumer expectations. A paradigm shift was clearly under way. Through the 1990s, industry consolidation, new technologies, and new competitive approaches to retail banking changed the underlying business economics, and created a stressful environment for all competitors.

Retail banks generated income through the interest earned on loans and deposits, and fees charged for accounts. For a typical retail bank, the bulk of the profits (often as high as 80 percent) derived from a small portion of the customer base (typically 20 percent), which forced banks to consider carefully how to manage this base. Ideally, banks would serve only profitable customers, but the situation was made difficult by how bank products were designed. For example, checking accounts typically charged a monthly fee⁴ and allowed customers to write checks, go in to the branch, and call the telephone center—all in unlimited quantities. Banks designed their products to attract more profitable customers, but there were no guarantees that only profitable customers would be attracted to the products. Since customer-transaction behavior was critical in determining customer profitability, it was very difficult for banks to attract only profitable customers. In fact, up to 60 percent of a bank's retail customer base had transaction behaviors that made them unprofitable.

At various points in retail banking history, new distribution channels have been introduced. Each of these channels had a lower marginal cost per transaction than the previous channels. The intent was to migrate customers to these new channels in order to reduce the cost incurred by the bank in serving the customers' demanding and evolving behavior. However, the convenience of new channels often translated into more intensive customer-transaction activity rather than the intended channel migration. Balancing the expansion of new customer convenience with the cost of new channels was one of the most significant strategic challenges the retail banking industry wrestled with in the 1980s and 1990s.

\$600 million in cost savings. See "Fleet Financial to Acquire BankBoston," *The Wall Street Journal*, March 15, 1999; "Merger Plan Cites Big Sale of Branches," *The Boston Globe*, March 17, 1999; and, Deutsche Bank Analyst Report, December 20, 1999.

⁴ The monthly fees were often waived when certain minimum balance requirements were met.

The first alternative channel to branches was the automated teller machine (ATM), introduced in the United States in 1970. Girard Bank (acquired by Mellon Bank in 1983) introduced the George Card, allowing Girard customers to get cash from George machines and transfer money between accounts. Only Girard customers had access to the machines, and it was hoped the cards would become an important customer acquisition tool. Competitors of Girard, concerned with having to replicate the investment to establish their own ATM system, banded together and formed an alliance that shared costs and provided a network of ATM machines. Each machine in the network allowed customers from any of the member banks access to their accounts. This first network, created in 1979, eventually became the MAC network of ATMs, one of the largest ATM networks in the United States.

Telephone banking entered the mainstream soon after ATMs, similarly allowing customers to move money between accounts and check balances without having to visit a branch. Slowly banks increased the hours of availability at their call centers until virtually every bank had call center representatives available 24 hours a day, 7 days a week (24/7). While telephone banking was an added convenience for consumers, the cost of providing this service continued to rise steeply. Some customers called multiple times daily to check their account balances. As a result, banks instituted voice response units (VRUs), which allowed computers to give basic information over the phone in response to touch tones, without a call center representative. By 2000, at a company such as FleetBoston, VRUs handled more than 80 percent of all calls to a retail bank call center.⁵

Following call centers, banking via a personal computer originated in the late 1980s. These first systems required special proprietary software for a customer to log directly into a bank's systems (called PC banking systems). The first product to gain broad adoption was Intuit's Quicken, which could be connected to different banks' checking accounts. While the early adopters of PC banking were enthusiastic, they were also limited in number. Moreover, again the industry did not experience any reduction in customer use of other existing channels. By 2000, most PC banking systems were replaced by Internet banking, where customers accessed their accounts through the bank's Web page. (See Exhibits 6 and 7 for costs and transaction volumes by channel.)

Retail Banks Respond to the Internet

The increased penetration of personal computers in the home and the expansion of Internet access contributed to the increased use of online banking. Pursuing the opportunity of innovation, banks started to leverage the Internet as a high-convenience, low-cost channel. In 1994, an estimated 250,000 United States households used online banking for account access and/or bill payment (less than 1 percent penetration of United States households). By 1998, that number exploded to 8 million households or 8 percent of all United States households. Forecasts for 2003 predicted that 29 percent of United States households would be banking online.⁶

In October 1995, the first Internet-only bank opened: Security First Network Bank (SFNB), which tried to capitalize on the reduced cost structure of having only an electronic presence with no bricks

⁵ FleetBoston Financial Corporation.

⁶ *Online Banking Report*, December 1998. *Online Banking Report* defined online banking as any kind of banking that used a "screen" including PC, TV, info-only kiosks, handheld computers, PDA, pager, screen-phone, digital cell phone (if information was visually delivered on the screen). ATMs and voice calls were excluded.

and mortar. SFNB's strategy was to pass its cost savings on to customers in the form of reduced fees and amongst the highest interest rates in the country for its deposit products.⁷

The first major retail bank to respond to SFNB's Internet-only example was Wells Fargo, which, in May 1995, added an Internet banking channel. Wells Fargo's foray into online banking traced its roots back to Prodigy, one of the first dial-up PC Banking services launched in 1989. Soon thereafter, Wells developed its own proprietary PC banking system. The inefficiency of having both PC banking and Internet banking services forced Wells Fargo to reassess its online offerings, leading to the 1995 launch of an improved bank Web site. Within the first two months of Wells Fargo's new Internet service, 10,000 customers accessed their accounts through the new channel. By August 1999, over one million Wells Fargo customers had subscribed to the online channel, and online growth continued at approximately 100,000 customers per month during the fourth quarter of 1999.⁸

In 1999, in a high-profile competitive move, WingspanBank.com was established. Chicago-based Bank One launched its subsidiary WingspanBank in June 1999 and managed Wingspan within its credit card subsidiary FirstUSA.⁹ Separating Wingspan from its retail bank, Bank One sought to free Wingspan from the higher costs and increased bureaucracy of a large organization. The intention was to give Wingspan the ability to innovate quickly and be responsive to customers' needs. In essence, Bank One attempted to create a separate "dot-com" organization. This organizational strategy differentiated Wingspan, and was expressed in Wingspan's advertising motto: "If your bank could start over, this is what it would be." One analyst espoused this strategy: "The counsel we give incumbents is to make sure that your online financial services group is as free from the typical bureaucracy as it can be because attackers get up every morning with a singular focus on stealing your most profitable customers."¹⁰ A \$100 million national advertising campaign supported the launch of Wingspan.

Wingspan differed from traditional banks in that it had no branches and it sold products manufactured by other banks. Through E-Loan, for example, Wingspan offered other institutions' loans. In the case of a customer interested in a home equity loan, the application process at Wingspan was streamlined (it consisted of information and forms on four screens) and preliminary approval was almost instantaneous. A loan representative would then call the customer to complete the process. If customers did not notice the "Powered by E-Loan" symbol, they might very well have assumed that Wingspan originated the loan. While banks had routinely offered mutual funds that were not manufactured in-house, selling the more traditional retail banking products of other banks was new. Despite the initial industry fanfare, Wingspan did not succeed in attracting a strong

⁷ In the first eight weeks of operation, SFNB signed 1,000 accounts in 40 states. See Christopher Rhoads, "Kentucky Visionary Saw the Future and Took Off for Cyberspace," *American Banker*, December 21, 1995, p. 7. One year after opening, SFNB had approximately \$15 million in deposits and 4,000 accounts. See Jennifer Kingson Bloom, "A Second Bank is Launched into Cyberspace," *American Banker*, October 18, 1996, p. 1.

⁸ In the first quarter of 1998, 25,000 customers per month were added. By the first quarter of 1999, customer acquisition rose to 70,000 customers per month. "Banking and E-Commerce: Ramping up the Curve," Analyst Report, *Lehman Brothers, Inc.*, September 29, 1999, p. 67.

⁹ Bank One had a broad Internet strategy of which Wingspan was only one part. bankone.com and firstusa.com were two other sites through which customers accessed Bank One's products and services. Pricing structure differentiated each Bank One site. In addition to Bank One banking products, the sites offered links to other Web sites and financial tools adding value to the sites. See CIBC World Markets, Equity Research, June 24, 1999. In 1999, Bank One spent \$150 million in marketing with an additional \$150 million budgeted for 2000. Advertising alone accounted for \$100 million of the costs in 1999. By April 2000, Wingspan had an estimated 150,000 customers and approximately 450,000 unique visitors to its site each month. See "WingspanBank.com Counts on Simplicity," *Computerworld*, August 23, 1999; Jack Egan, "Banks: Now you See 'em, soon you may not," *U.S. News and World Report*, October 11, 1999, pp. 53-54; and, *Online Banking Report*, May 2000, Table 6 and 9a.

¹⁰ McKinsey & Co. analyst Marc Singer, quoted in "Which Way on the Internet?" *US Banker*, September 1999.

customer base. By late 1999, Wingspan was viewed within the industry as an interesting concept that had failed. At Bank One, a significant management shake-up dismissed much of the leadership of Wingspan in late 1999.¹¹

The development of Internet banking appeared to be following two courses: Internet-only banks with no brick-and-mortar branches, such as Security First Network Bank (SFNB) and WingspanBank, or traditional banks creating a Web site as an additional channel, such as Wells Fargo. Other Internet-only banks opened between 1995 and 1999, but none of them attracted a particularly large customer base.¹² FleetBoston believed that to lead in the Internet space, financial service providers had to employ a hybrid approach: integrating both online and physical resources to serve its customers.

FleetBoston Retail Banking

FleetBoston's retail bank followed the same course as other banks in implementing new channels of convenience for its customers. By the beginning of 2000, FleetBoston was the retail bank for nearly eight million households with approximately \$43 billion in deposits. With 1,260 branches and 3,500 ATMs, FleetBoston's market existed strongly in New England with a growing presence in New Jersey and New York. In 1999, the Retail Distribution Group generated \$333 million in net income, approximately 15 percent of FleetBoston operating earnings.

FleetBoston online banking was managed in the Online Financial Services division. Online Financial Services employed 44 FTEs (full-time employees) in marketing, Web site management, business development, and business planning. The Retail Distribution Group's Telephone Banking unit provided support (via telephone and e-mail) to online customers with questions and problems concerning their banking as well as general Internet navigation.

The historical foundation of Fleet's online banking rested on the March 1997 launch of Fleet's PC banking program. Initial sign-ups for Fleet's service averaged 1,000 customers per day. Fleet's proprietary software was a customized version of "Managing Your Money" by MECA Software, a joint venture company Fleet partially owned.¹³ The program provided customers with real-time data access to most account types, 90 days of transaction history, and fund transfers. Fleet customers received free software to take advantage of the program.

As the Internet became a more prevalent channel, Fleet launched Fleet Web Banking, which went live in July 1998 and provided many of the same features as Fleet's PC banking program. Additionally, customers could download their account information into personal financial software programs such as Quicken, Microsoft Money, or Managing Your Money. A link to Fleet's brokerage partner Quick & Reilly (acquired in February of 1998) gave customers access to Quick & Reilly

¹¹ Wingspan was organizationally part of FirstUSA which announced earnings disappointments in mid 2000. FirstUSA CEO, Dick Vague, resigned in late 1999, as did Wingspan president and CEO, James Stewart. "The Internet and Financial Services," *Morgan Stanley Dean Witter Analyst Report*, March 7, 2000.

¹² As of August 2000, 35 Internet-only banks were operating in the United States. After SFNB, mBank and NetBank opened in 1996. Telebank was founded in 1997 and CompuBank in 1998. The remaining eleven banks opened in 1999. For a complete list, refer to *Online Banking Report*, www.onlinebankingreport.com, and Gomez Advisors, www.gomez.com.

¹³ In 1995, Fleet along with First Bank System, Royal Bank of Canada, BankAmerica Corp and NationsBank Corp owned 20% of Meca Software. See Timothy O'Brien, "Fleet, First Bank, Royal Bank of Canada Enter Home Banking Via Stake in Meca," *The Wall Street Journal*, November 28, 1995.

brokerage accounts as well. By December 1998, Fleet had 150,000 online accounts representing 5.8 percent of its customers.

Similarly, BankBoston's foray into online banking occurred when it acquired BayBanks in July 1996, which had just launched its PC banking program, HomeLink, a few months earlier. HomeLink, a proprietary product system developed in conjunction with Sapient, was used by 160,000 customers or 16 percent of BayBanks' customer base, making it larger than most PC banking programs in the United States.¹⁴ The growth and popularity of HomeLink over the next two years positioned BankBoston as a national leader in the online financial service marketplace. Hedges expressed the priorities of FleetBoston's online banking channel:

A bank's online capabilities represent one of the limited areas where we can really differentiate ourselves. We must work to develop the right type of online experience, the right type of Web site experience, so that our customers truly come to value what we can do for them. It would be a mistake to rush too quickly, run scattershot, and build our capabilities without integrity and the right kind of value proposition. We need to work to give our customers a valuable reason to keep coming to FleetBoston.

With the Fleet-BankBoston merger, the newly formed FleetBoston adopted the HomeLink platform, leveraging the strong functionality and brand recognition of the former BankBoston product. Efforts were immediately pursued to integrate HomeLink into Fleet's Quick & Reilly brokerage services. At the time of the merger, 343,000 BankBoston customers used HomeLink, and 149,000 Fleet customers used Fleet Web Banking. By the end of 1999, FleetBoston counted 658,000 online customers. At the same time, the rise of Internet-only banks presented significant new competition for established traditional banks such as Fleet. Moreover, the pace of growth of Internet activity showed no sign of abating. (Exhibit 8 presents Online Banking market share.)

Evolving Competition for Financial Services

With the rise of the Internet in the 1990s, non-banks became new competition for traditional banks. Portals such as Yahoo! began to incorporate finance-related content into their offerings. At the Yahoo! Finance site, traditional bank customers found products similar to those found at their local branch. These products (loans, insurance, investment accounts, and others) were embedded in finance-related content that consumers could readily access while considering financial products. At Yahoo! customers could apply for a mortgage while reading a short description of how mortgages functioned.

Content-rich finance portals began to attract customers as these Web sites experienced a 50 percent increase in the number of unique visitors to their sites between December 1998 and March 1999.¹⁵ As portals, these Web sites also provided services and information completely unrelated to finances, including shopping, entertainment, news, and weather, just to name a few. Some banks responded directly to these non-bank finance sites by attempting to create a bank site that extended beyond banking services; Chase Manhattan's Web site, Chase.com, featured ChaseShop.com which sold goods and services to any visitor.

¹⁴ FleetBoston Financial Corporation.

¹⁵ Other examples included Quicken Financial Network, AOL Personal Finance, and MSN MoneyCentral. See Diane B. Glossman, "Banking and E-Commerce: Ramping up the Curve," *Lehman Brothers Analyst Report*, September 29, 1999, p. 7.

Jim Goodwin, head of Online Financial Services, elaborated on FleetBoston's online banking Web site and the emergence of portal competition:

We recognize the importance of building financial portal capability that offers our customers a relationship-centric, personalized Web experience tailored to all their needs and encompassing all the services Fleet delivers to them. To us, offering a portal is part of our feature-and-function offer, as well as part of our customer acquisition strategy. Therefore, today we are partnering with dozens of third-party content providers such as MyWay.com, SmartMoney.com, NetMind, and Disney.com.

By consolidating financial products, financial portal sites hoped to take advantage of the potential these pages had to cross sell and attract new customers. For example, customers went to Yahoo! Finance to apply for a home equity loan. While at the site, they could also comparison shop for better auto insurance or a better credit card rate. WingspanBank.com also consolidated financial products for consumer comparison.

The pressure for broader functionality and richer content was stretching the technology resources of banks such as FleetBoston. Moreover, the multiple initiatives underway at many banks risked fragmenting what limited resources were available. Increasingly, balancing the entrepreneurial pursuit of Internet opportunities with the rationing of the available investment capital and technology resources within the company was becoming paramount.

A Corporate Program for e-Enablement

In January 2000, not long after forming the FleetBoston Financial Corporation, Chad Gifford, president and COO, sponsored a corporate initiative to ensure the newly merged company become nothing less than a top-tier Internet financial services provider for customers and employees. Called "eCatalyst," this intensive and comprehensive process, led by Brian Moynihan, the director of Corporate Strategy and Development, constructed a blueprint for building Web-enabled capabilities across the corporation. From an initial review of 500 projects, a focused set of 10 "public works" initiatives were decided upon. According to Moynihan, this effort produced significant enhancements in FleetBoston's online capabilities and offerings, from infrastructure to access to transactions:

Our goal is to drive the rapid, centralized development of our core Internet capabilities. These will, in turn, become the platforms for the products and services offered by our various business lines, targeted at different customer segments. Our approach is to be customer-centric and relationship-driven. We need ownership of the Internet with our business lines. Corporately, we need to get common platforms developed. The "big idea" is the combination of corporate energy and business line accountability for success on the Internet.

All of FleetBoston's business lines participated in the eCatalyst process: investments, corporate banking, small business, and consumer banking. The key initiative for the Retail Distribution Group was the accelerating growth ambitions for HomeLink, FleetBoston's Internet banking service. In May 2000, Hedges set the goal of growing from approximately 600,000 customers to more than one million by year-end.

Leveraging the Internet as a Retail Growth Driver

FleetBoston was ready to leverage HomeLink as a critical growth engine for its retail banking business. Goodwin explained the importance of online customers:

Online banking customers carry higher balances than pure offline customers. They also score higher in profitability, retention, and total products purchased. This has held true since the service was introduced.

(Exhibits 9 and 10 compare online and offline bankers.)

Focusing on its retail footprint, FleetBoston sought to increase the number of online customers, pre-empt competitors from its own online play, and establish its online leadership as a key element of its value proposition for consumers. To do so, in June 2000, Hedges implemented an \$18 million fully integrated, marketing campaign, with a majority of the advertising concentrating in the target-intensive Metro New York, New Jersey, and Metro Boston markets.

Prior to the June 2000 campaign launch, FleetBoston was enrolling approximately 20,000 HomeLink customers per month. Through September 2000, FleetBoston's campaign drove HomeLink enrollments dramatically higher, at about 20,000 per week. At the end of the campaign, FleetBoston had greatly accelerated its pace of HomeLink enrollments, surpassed its goal of one million customers three months early, and increased its online banking penetration to exceed 30 percent.¹⁶ Reflecting this success, Wall Street was beginning to recognize Fleet's online leadership, as described by bank analysts with Prudential Securities:

While e-Commerce is unlikely to be the salvation of any company in this industry, FleetBoston's dedication to it is calming to us, because it is a tacit acknowledgement that this company is exploring all the businesses which it may need in the future. ... [W]hile yesterday's meeting did not contain any blockbuster announcements, it is one more piece in the mosaic of a company that will (soon, we hope) be recognized as one of the industry's strongest.¹⁷

New Technology Heightening the Competition: Account Aggregation

Despite successes such as FleetBoston's HomeLink growth effort, the competitive landscape kept evolving as new technologies were introduced. In 1999, new companies such as Sunnyvale, California-based Yodlee and Atlanta, Georgia-based VerticalOne developed computer services that aggregated accounts for consumers. At an account aggregation site, the consumer had his or her bank accounts, investment accounts, credit card accounts, electronic bills, and even travel reservations centralized at one convenient Web site using only one password. Consumers interested in this service signed up, provided account numbers, and passwords. The aggregating site then logged on as the customer at the agreed upon sites, collecting the data in order to present all the information in one convenient location—the aggregating Web site (this collection was termed

¹⁶ FleetBoston Financial Corporation e-Commerce Analyst Meeting, November 1, 2000.

¹⁷ Nancy A. Bush and Harmita K. Selhi, "FBF: They Talk About E-Commerce," *Prudential Securities*, November 2, 2000.

"screen-scraping").¹⁸ It was predicted that 800,000 consumers would take advantage of aggregation services in 2000 and that number would increase to 4 million by 2002.¹⁹

At issue for banks was the ability of some of these account aggregators to "screen scrape" information from bank Web sites. Early in 2000, concerns over privacy and security gained visibility when First Union Corporation filed suit against aggregator Secure Commerce Services, Inc. for accessing First Union customer information without the bank's consent. In an attempt to protect consumer privacy and bank interests, First Union presented account aggregator guidelines.²⁰ Contrasting First Union's resistance to screen scraping, in February 2000 FleetBoston announced its own aggregation site, NetFriday.com. Using Yodlee's platform for consolidating account information NetFriday.com went live April 2000. FleetBoston maintained control of the site, but kept it separate from FleetBoston's main consumer site, homelink.fleet.com. NetFriday not only aggregated FleetBoston account information, it also consolidated customer's other financial holdings, e-mail, credit card balances, and provided a "virtual personal assistant" to help with scheduling, gift buying, ordering tickets, and other tasks.²¹ FleetBoston believed that account aggregation would ultimately be a convenience valued by customers.

By April 2000, First Union executed an about-face, announcing the end of its suit against aggregators, and the formation of a partnership in an account aggregation company. "Scrape or be scraped" became a prevailing attitude in the banking industry.²² Soon after, Citigroup, Chase, Wells Fargo, and Merrill Lynch announced offerings of account aggregation. One aggregator executive remarked: "Six months ago [banks] were all talking about how to stop this, and now they are all trying to figure out how to jump on board."²³ In an attempt to give banks more control over aggregators, the Banking Industry Technology Secretariat (BITS) planned to release guidelines in November 2000. It recommended that banks issue two sets of user names and passwords, one each for the customer and aggregator, allowing customers the option to limit the number of accounts an aggregator could access, and that banks develop direct feeds for sharing customer information, ending the need for screen scraping.²⁴

Account aggregators could more easily cross sell financial products. Knowing the kinds of accounts customers have gave account aggregators the ability to provide other financial services. For example, if a customer included credit card information, the aggregator could offer another credit card with a better rate. Account aggregation also made the site "sticky" because setting up the

¹⁸ Screen scraping occurred when consumers gave their log on information to an infomediary, such as Yodlee or VerticalOne, which pretended to be that consumer in order to obtain their information. The infomediary, while acting for clients, did not notify the institutions holding customer information.

¹⁹ Estimated by Celent Communications, see Christina Le Beau, "Show Them The Money," *The Industry Standard*, May 8, 2000, <http://www.thestandard.com/article/display/1.1151,14655,00.html>.

²⁰ Ross Snel, "First Union Lays Down Guidelines for 'Screen Scrapers' Culling Its Site," *American Banker*, January 12, 2000. Carol Power, "First Union Confirms It is Suing a 'Screen Scaper,'" *American Banker*, January 19, 2000.

²¹ Carol Power "While Others Quail at 'Screen Scraping,' FleetBoston Will Embrace It on New Site," *American Banker*, February 1, 2000.

²² Jessica Toonkel, "First Union Yields To Screen Scraping; Customer Demand Seen Key Motive," *American Banker*, April 13, 2000.

²³ Octavio Marenzi, managing director of Celent Communications, cited in Jessica Toonkel, "Banks Stop Whining, Learn to Love Aggregation," *American Banker*, September 8, 2000. See also Amy L. Anderson, "Citi to Offer Aggregation at 'Independent' Site," *American Banker*, June 20, 2000. Jessica Toonkel, "Chase Web Site will Offer Aggregation of Accounts," *American Banker*, June 19, 2000.

²⁴ Jessica Toonkel, "BITS Offers a Peek at Aggregation Problem Fixes," *American Banker*, September 14, 2000.

information required for aggregation was time-consuming and customers were unlikely to switch and go through the process again at another site. These customers returned to the site regularly and often.

In August 2000, Yahoo! announced account aggregation as part of its strategy to position the Internet portal as a trusted financial advisor. OnMoney.com looked to account aggregation as first steps in creating an “integrated personal financial management tool.” By consolidating financial information on one convenient site, consumers would be able to make financial transactions and decisions based on the totality of their financial portfolio. Quicken.com provided a similar view of a consumer’s finances. Jupiter Communications, a research firm, noted that these moves outside of the banking industry increasingly positioned banks as a commodity.²⁵

New Technology Heightening Competition: Electronic Bill Payment and Presentment

While account aggregators presented new sources of innovation and competition for retail banks competition was also threatening from evolving electronic bill payment and payment (EBPP) systems. These services presented bills electronically to the customer via e-mail or a Web site, and provided the customer with an electronic means of paying the bill. Estimated savings from EBPP ranged from \$1.25 to \$2.75 per payment, derived from reduced paper, handling, and postage, decreased errors, lower customer service costs, and fewer collections costs.²⁶ EBPP systems were available to anyone with Internet access.

Most bank Internet channels offered bill payment to their online banking customers; however, not all banks provided electronic bill presentment. In the case of a bank offering bill payment only, online banking customers signed up for electronic bill payment through the bank’s Web site. Customers then input merchant names, addresses, and account numbers. This last step was fairly labor-intensive, but only occurred the first time a bill was to be paid. When a bill was received (in hard copy), customers then logged on to their online banking site and indicated the payee, amount, and date to be paid. The bank would then either electronically pay the bill or cut a paper check.

While bill payment was a common online banking feature, electronic bill presentment was not offered by all banks. Electronic bill presentment required merchants and companies to forge an agreement with an intermediary, which would process the electronic bills.²⁷ A prominent example was Georgia-based CheckFree,²⁸ which enjoyed the largest market share (60 percent) in March 2000 by facilitating 15 million transactions.²⁹ With over 76 companies with which it had agreements, CheckFree also partnered with banks, brokerages, credit unions, and portals to provide the bills

²⁵ James Van Dyke, “Online Bill Presentment,” *Jupiter Vision Report*, Jupiter Communications, Volume 2, 2000.

²⁶ Diane B. Glossman, “Banking and E-Commerce: Ramping up the Curve,” *Lehman Brothers Analyst Report*, September 29, 1999, p. 43.

²⁷ For example, when customers signed up for electronic bill presentment and payment, they perused the list of companies available for bill presentment and if one of their payee’s was on the site, they signed up for bill presentment with this company. Each month, customers received e-mail messages alerting them to the bill. The customers then logged on to their online banking page, examined the bill, and paid it electronically. The bank or financial institution then kept a record of payment history and bills for later reference.

²⁸ Investors included Redmond, WA’s Microsoft, New York City’s Citibank, and Chicago’s Bank One and Atlanta, Georgia’s First Data.

²⁹ *Online Banking Report*, May 2000, Table 31.

received by its company alliances and pay those bills. As with account aggregation, billpay applications induced greater loyalty amongst existing customers and was a powerful tool with which to entice new customers. Financial portals such as Quicken.com, OnMoney.com, and Yahoo! Also looked to EBPP as a way to strengthen their forays into financial services.³⁰

FleetBoston pursued online bill presentment and payment through a strategic partnership with the Spectrum consortium (other partners included Chase, Wells Fargo, and First Union). Essentially, Spectrum provided a consolidation of bills or a “switching” function for its participating institutions, enabling them to access consumer bills and initiate payments to those bills. The benefit Spectrum provided companies such as FleetBoston was that it enabled them to present and pay as many bills as possible for its customers without the costs or infrastructure associated with having to set up directories for each biller. Importantly, as banks such as FleetBoston began to leverage new technologies and opportunities for bill presentment, they were better poised to influence the development of this burgeoning market.

Other New Technologies and the Implications for Retail Competition

PayPal, a division of Silicon Valley-based X.com, stormed the financial services scene with its person-to-person (P2P) payment systems where customers initiated electronic fund transfers from their credit card into someone else’s bank account. The popularity of PayPal derived from many eBay customers who used the service to facilitate auction sales. In June 2000, the PayPal service was free to customers at both ends of the transaction; PayPal provided \$5 referral awards to customers who recruited others to sign up for the service. Analysts at Jupiter Communications predicted that P2P payment solutions would expand beyond consumers to small businesses as well. Bank One tried to develop its own P2P solution called eMoneyMail, but this failed as it was only available to Bank One customers. Another P2P solution was Billpoint in which Wells Fargo had a 35 percent stake. Owned by eBay, Billpoint presented the strongest competition to PayPal.

In late 1999, American Express launched its Blue Card, which touted its smart chip as the future for e-commerce.³¹ To keep pace with similar card technology, FleetBoston launched its Fusion smart Visa card in September 2000. The Fusion card utilized “smart chip” Visa technology, combining traditional credit card features with enhanced functionality, enabling cardholders to carry one card to access a variety of pre-loaded applications, including advanced digital security, single pin e-shopping, pre-loaded promotion discounts, as well as a host of other evolving applications.

Early in 2000, “M-Commerce” (“M” for “mobile”) and “Wireless Web” became stock phrases for people describing the next frontier in computing and finances. Developers honed Wireless Application Protocol (WAP) technology, which allowed consumers to access the Web using a cell phone or a PDA. Looking to models in Japan and Europe, some predicted wireless banking as the next channel. A CEO of a software company that established wireless services for financial institutions expressed this hope: “The cost of wireless is dropping. ... It’s so darn easy for consumers, they’ll do it like they use ATMs.”³² In June 2000, Charles Schwab, E*Trade, BankAmerica, and Fleet

³⁰ James Van Dyke, “Person-to-Person Payments,” *Jupiter Concept Report*, Jupiter Communications, 2000.

³¹ Jennifer Kingson Bloom, “With Hoopla, Amex Unveils Blue Card for Use on Web,” *American Banker*, September 9, 1999.

³² Greg Wolfond, CEO of 724 Solutions, Inc., a Toronto, Canada technology company, cited in Carol Power, “Banks Start to Click Into Wireless Banking,” *American Banker*, June 2, 2000.

announced some kind of wireless service capability. A technology consultant insisted, "Financial institutions have to have a wireless strategy. It's no longer a matter of 'if' but 'when.'"³³

At the end of 2000, the digital economy continued to evolve and challenge the way companies such as FleetBoston did business throughout the financial services marketplace. Changing consumer behavior, innovative new technologies, and the rise of real non-banking competition pressured banks to find the required investment and technology resources to continue to compete. The pressures and struggles to lead were even greater.

Looking Ahead

A few days following his traffic-light encounter, Hedges found himself walking to FleetBoston's corporate headquarters; this time to present his 2001 business plan to Terry Murray, chairman and CEO, and Chad Gifford, president and COO. With plan in hand, Hedges believed he had captured the major issues and pressure points confronting the retail bank. He thought to himself: "Is it bold enough? Does it address the new frontier in retail banking? Will it ensure leadership in online financial services? Would it deliver the near-term earnings growth expected?" As Hedges crossed the street, another couple, this time younger with no cell phone or PDA, approached him: "Excuse me, do you know of any good restaurants around here?"

³³ Edward Kountz, from TowerGroup, a technology consulting firm in Massachusetts, cited in Jennifer A. Kingson, "Halfhearted Embrace for WAP Wireless," *American Banker*, August 9, 2000.

Exhibit 1 FleetBoston, Fleet Financial and BankBoston

	FleetBoston 1999	Fleet Financial 1998	Bank Boston 1998
Total Assets (\$ million)	190,692	104,382	73,513
Total Liabilities (\$ million)	175,385	94,973	68,696
Total Revenue (\$ million)	13,773	7,142	4,582
Employees	59,200	35,000	25,000
Branches	1,260	1,150	427

Source: Company Annual Reports; "Fleet Financial to Acquire BankBoston," *Wall Street Journal*, March 15, 1999.

Exhibit 2 FleetBoston Selected Financial Information: Income Statement (\$ millions)

	1999	1998	1997	1996	1995
Net Interest Income	6,799	6,454	6,192	5,858	5,389
Non-Interest Income	6,974	5,281	4,206	3,658	3,237
Total Revenue	13,773	11,735	10,398	9,516	8,626
Non-Interest Expense	9,357	7,050	6,050	5,831	5,831
Loan Loss Provision	933	850	522	444	376
Net Income	2,038	2,324	2,246	1,860	1,351

Source: Adapted and excerpted from Company 10K filing.

Exhibit 3 FleetBoston Selected Financials: 2000 Quarterly Income Statement (\$ millions)

	Sept 2000	June 2000	Mar 2000	Dec 1999
Interest Income	3,384	3,361	3,461	3,374
Total Sales	3,384	3,361	3,461	3,374
Interest Expense	1,799	1,690	1,753	1,702
Loan Loss Provision	300	310	300	245
Total Expenses	2,099	2,000	2,053	1,947
Non-Interest Income	2,150	2,358	2,722	1,973
Non-Interest Expense	-2,047	-2,223	-2,512	-3,325
Pre-Tax Income	1,388	1,496	1,618	75
Net Income	841	847	957	-34

Source: Adapted and excerpted from Company 10-K filing.

Exhibit 4 FleetBoston Selected Financial Information: Annual Balance Sheet (\$ millions)

	1999	1998	1997	1996	1995
Loans	119,700	112,094	106,545	100,922	91,436
Loan Loss Reserves	-2,488	-2,306	-2,144	-2,371	-2,211
Other Assets	73,480	68,106	29,914	28,162	58,148
Total Assets	190,692	177,894	160,314	151,955	147,373
Deposits	114,896	118,178	109,497	109,902	98,186
Long-Term Debt	25,349	14,411	8,191	8,460	8,686
Other Liabilities	35,140	31,101	29,585	20,891	29,142
Total Average Liabilities	175,385	163,690	147,273	139,253	136,014

Source: Adapted and excerpted from Company 10-K filing.

Exhibit 5 FleetBoston Selected Other Information

	1999	1998	1997	1996	1995
Employees	59,200	36,000	34,000	36,000	30,800
Earnings per Share (\$)	2.10	2.52	2.37	1.99	.79
Return on Average Common Equity	14.12%	17.64%	19.71%	16.31%	13.16%
Return on Average Assets	1.08%	1.37%	1.48%	1.27%	.95%

Source: Adapted from company 10-K filing.

Exhibit 6 Cost by Channel

Channel	Cost (\$)
Teller Transaction	1.00
Live Call Center	.50
Electronic Call Transaction	.30
ATM	.25
Internet	.01

Source: Adapted from Cyber Dialogue, "The Growth of E-Financial Services," May 24, 2000.

Exhibit 7 Transaction Volume by Channel in the United States

Channel	1994	1999
Branch	54%	40%
In-store branch	2%	3%
ATMs	22%	24%
PC/Online	--	2%
Mall	5%	3%
Telephone	12%	22%
Other	5%	3%

Source: Adapted from *Online Banking Report*, May 2000.

Exhibit 8 Online Banking Market Share as of February 2000

Bank	% Market Share
Wells Fargo	14.14
Bank of America	9.55
Citigroup	4.82
Bank One	4.01
FleetBoston	3.87
First Union	2.96
Washington Mutual	2.29
Wachovia	1.81
Chase	1.34
Net.Bank	1.10
Others combined	54.11

Source: Adapted from ING Barings, Analyst Report for Wells Fargo, February 3, 2000.

Exhibit 9 Channel Usage Online Bankers versus Offline Bankers (in %)

Channel	Online Banker ^a	Offline Bankers ^b
ATM machine	72	40
Direct Deposit	57	40
Pay bills by mail	50	74
Visit branch	46	72
Call automated system	32	27
Call human representative	14	15

Source: Adapted from *Online Banking Report*, May 2000, Table 60.

Notes:

a. Customers using online banking.

b. Customers not using online banking.

Exhibit 10 Average Transactions per month Online Bankers versus Offline Bankers

Transaction Type	Online Bankers	Offline Bankers
Deposit	4.9	3.3
Paid bills	4.1	3.2
Withdrew cash	6.5	4.0
Balance inquiry	8.0	3.1
Transfer funds between accounts	2.7	1.9

Source: Adapted from *Online Banking Report*, May 2000, Table 61.