

Virtual banks get real, offer deals to woo customers

Being on the Net just isn't enough

By Christine Dugas
USA TODAY

Internet banks have run up against a brick wall. While millions of Americans are logging onto personal computers to pay bills, check balances and transfer money between accounts, they still must venture into the physical world to make deposits and get cash. That's been stifling the growth of Internet-only banks. As a result, some are becoming more like traditional banks, buying office networks and automated teller machines. Others are offering interest as high as 10% on checking accounts and rebates on the ATM surcharges their customers pay to other banks.

The good news: Bank customers are getting more options. "The vast majority of consumers still want some physical presence," says Brook Newcomb at Forrester Research (see chart). "Internet banks will provide some sort of access. Whether it's through ATMs or kiosks, they will take on a little of the traditional feel of banks. Pretty soon it will be harder and harder to differentiate virtual banks and traditional banks."

It's not just added convenience customers want from Internet banks. Many want the sense of security a physical presence provides. "One part is psychological," says Steven Chen, who works for a Dallas software company. "I want something tangible, and I want to know someone is there if I need to meet them in person." Chen uses Bank of America's online services, so he can bank any time. But he also has access to the bank's large network of branches and ATMs.

Online banking — whether offered by a traditional bank or a virtual bank — has not caught fire like online stock trading. "Investing is a lot more exciting," says Mitchell Caplan, chief banking officer of E-Trade Group, which started as an online brokerage. "Let's face it, banking is like a root canal."

Many consumers sign up for online banking but never use it for much more than checking their account balance. Cyber Dialogue, a New York research firm, estimates there were 6.3 million active online banking users at the end of June, mostly at traditional banks. Online-only banks account for only about 2% of online banking households, according to Mainspring Communications, a Boston research firm.

What's the problem?

Because virtual banks aren't saddled with the cost of maintaining and staffing branch networks, they can offer customers high interest rates on savings and checking accounts and favorable loan rates, plus the convenience of banking at home, 24 hours a day, seven days a week. But that's apparently not enough.

This week, WingspanBank.com, the Internet-only bank owned by Bank One of Minneapolis, announced that the first 30,000 consumers to sign up for a checking account with direct deposit will earn 10% until Sept. 1 on balances up to \$10,000. After that, the customers will earn up to 4.5%.

The national average for interest checking is 0.8%, according to Bank Rate Monitor. WingspanBank says few consumers are shopping to find the highest rates at virtual banks. "The (10% teaser) rate is to say, 'Come on in and try us,'" says Michael Cleary, the bank's president. "But rates are not the most important thing. It's all about convenience and customer experience."

To make banking easier, virtual banks often provide postage-paid envelopes for depositing checks by mail. But some customers find that cumbersome. "You don't know when the amount will be credited or if the post office will deliver it," says Chris Baerman, a software engineer in Mundelein, Ill. He says one of his deposits, containing two checks, was lost in the mail. He had to contact the issuers, ask them to cancel the checks and reissue them. "It was a hassle."

By contrast, Timothy Barbour, an executive with an Internet company in Clayton, N.Y., says he switched to NetBank, a virtual bank, earlier this year. And deposits won't be much of a problem once he gets direct deposit set up for his paychecks.

But most people want their bank to offer access by Internet, by branches, by ATMs and by phone. "Few people are using online banking as their only channel," says Sam Callard, an analyst in the Internet Strategies Group at Cyber Dialogue.

Clicks and bricks

As a result, virtual banks are increasingly moving to what's called a clicks-and-bricks strategy.

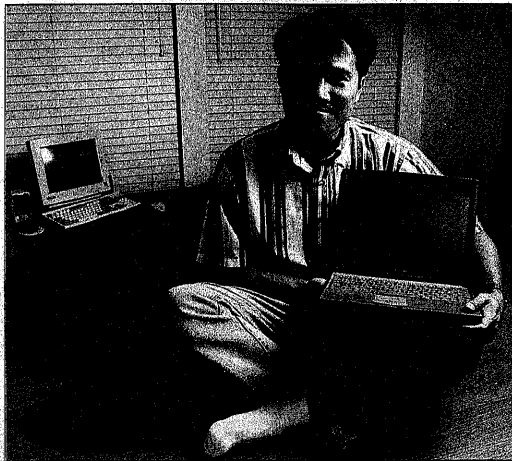
Last month, Telebank, the online banking unit of New York City's E-Trade, announced plans to acquire Card Capture Services, an ATM network with 8,500 machines. "The last barrier to mainstream adoption of online banking is the ability to deposit checks," says Caplan of E-Trade Group. "We will now offer consumers the best of both worlds."

Also last month, Royal Bank of Canada, which owns Security First Network Bank, a U.S.-based virtual bank, agreed to buy Prism Financial, a mortgage company with 150 U.S. branches. Security First already had an office in Atlanta and one in Clearwater, Fla. "We found we had concentrations of accounts around the offices," says David Noble, CEO of Security First Network Bank. "We always intended to add more, but it's difficult to roll out one office at a time."

Now the bank can use the mortgage company's sales agents to promote Security First's products and its brand name. "With banking, more so than other financial services, it is a matter of trust and security," Noble says. "In part, that is communicated by face-to-face contact."

First Internet Bank of Indiana has tried to offer customers added convenience by signing up with the MAC ATM network. About half of MAC's 52,000 ATMs let non-customers make deposits. "Unfortunately, there is no way to identify which machines accept deposits," says David Becker, CEO of First Internet Bank. "A consumer doesn't know until they put in their card" and the menu option appears on the screen. Becker says the deposit is fully credited to an account within two business days.

Coming at the problem from the other direction, some large financial firms have set up separate, virtual banks. Among them: Bank One's WingspanBank.com. Its customers can avoid ATM surcharges by using machines owned by Bank One and its subsidiaries. But they can't use them to make deposits.

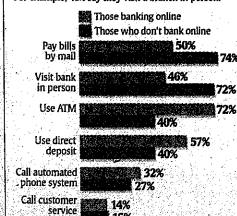


E-banking: Steve Chen, who works for a Dallas software company, enjoys using Bank of America's online services. He also has physical access to the bank's branches and ATMs, which are conveniences he requires.

chines owned by Bank One and its subsidiaries. But they can't use them to make deposits. American Express launched Membership Banking, a virtual bank, in July. Customers can get cash without a fee at any of the firm's 8,600 ATMs in the USA. But to date, the American Express ATMs can't accept deposits, nor can the 1,700 American Express Travel Service offices in the U.S. "We're exploring ways to make our

Banking tradition hangs on

Even those who bank online still use traditional services. For example, 46% say they visit a branch in person.



Source: Cyber Dialogue

By Marily E. Mullins, USA TODAY

accounts more convenient," says Robin Korn, vice president of business development and marketing.

For most Internet-only banks convenience means finding a way to bridge the virtual and physical worlds. "We're not suggesting that Internet-only banks start building as many branches as Chase Manhattan Bank has in New York," says Chris Musto, director of financial services at consultants, Gomez Advisors. But much like Charles Schwab has offices in selected locations, virtual banks may need some physical presence to overcome hurdles to customer acceptance. "It gives customers peace of mind," Musto says. Linda Banche, a software engineer in Framingham, Mass., says she's not ready to go to a virtual bank. Instead, she uses her local bank's online service to pay bills, check account balances and transfer money between accounts. Normally, she goes to her bank only to get cash. But recently she needed a signature guarantee and was glad she had a nearby branch. "Right now," she says, "the bank I have is working just fine, so why change?"

THE FIRST HIGH TECH, BLUE CHIP CAMERA.



Casio Technology. IBM® Microdrive.™

The Digital Camera That Takes The Whole Picture: 245 Shots, High Resolution. Under \$1,000.

It's the camera that yields a great return. The new Casio QV-3000EXplus Digital Camera with the IBM Microdrive®. Just look at its portfolio of features...

- **HIGHEST RESOLUTION** - With **3.34 megapixels** your shots will come to life with crystal clear imagery and incredible detail.
- **SUPER STORAGE** - With the IBM Microdrive®, it's easy to take over 2000 shots. 'Cause that's how many images it stores.

- **EASIER SHARING** - It's now as easy as point, shoot, and **zing** to share, store and print your digital pictures with our simple instant upload-to-web capabilities. Upload your pictures to **casio.zing.com** and get your first 25 prints FREE.

And in today's market, the Casio QV-3000EXplus is the best buy too. Retailing at just \$999⁹⁹.

For more information and a retail outlet near you, just call **1-800-836-8580**, or **www.casio.com**.

The Casio QV-3000EXplus Digital Camera with the IBM Microdrive®. Picture perfect in every way.

CASIO®
the unexpected extra



IBM® Microdrive™

Virtual banks get real, offer deals to woo customers

Banking on the Net isn't enough

Christine Dugas
USA TODAY

Internet banks have run up against a brick wall. Millions of Americans are logging onto personal computers to pay bills, check balances and transfer money between accounts, but they still must venture into the physical world to make deposits and get cash. This has been stifling the growth of Internet-only banks. As a result, some are becoming more like traditional banks, buying office networks and automated teller machines. Others are offering interest as high as 4% on checking accounts and rebates on the ATM surcharge their customers pay to other banks.

Good news: Bank customers are getting more comfortable with the virtual world. "The vast majority of consumers still want physical presence," says Brook Newcomb at Forrester Research (see chart). "Internet banks will provide a different sort of access. Whether it's through ATMs or branches, they will take on a little of the traditional feel. Pretty soon it will be harder and harder to distinguish virtual banks and traditional banks."

Not just added convenience, customers want security. Many want the sense of security that physical presence provides. "One part is psychology," says Steven Chen, who works for a Dallas software company. "I want something tangible, and I want to know someone is there if I need to meet them in person." Chen uses Bank of America's online services, but he also has access to the bank's physical network of branches and ATMs.

Online banking — whether offered by a traditional bank or a virtual bank — has not caught fire like online shopping. "Investing is a lot more exciting," says Michael Caplan, chief banking officer of E-Trade, which started as an online brokerage. "Let's face it, banking is like a root canal."

As consumers sign up for online banking but use it for much more than checking their accounts, Cyber Dialogue, a New York research firm, estimates there were 6.3 million active online users at the end of June, mostly at traditional banks. Online-only banks account for only about 2% of banking households, according to Mainspring Communications, a Boston research firm.

the problem?

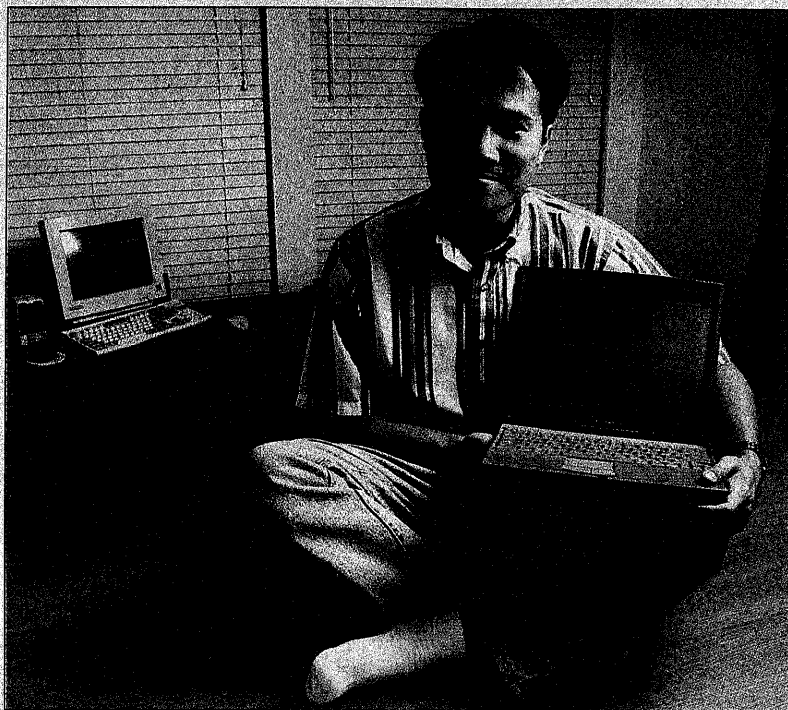
Since virtual banks aren't saddled with the cost of maintaining and staffing branch networks, they can offer customers high interest rates on savings and checking accounts and favorable loan rates, plus the convenience of banking at home, 24 hours a day, seven days a week. But that's apparently not enough.

Last week, WingspanBank.com, the Internet-only bank owned by Bank One of Minneapolis, announced that the first 30,000 consumers to sign up for a checking account with direct deposit will earn 10% until Sept. 1 on balances up to \$10,000. After that, the customers will earn up to 4.5%. The national average for interest checking is 0.8%, according to Bank Rate Monitor.

WingspanBank says few consumers are shopping to find the highest rates at virtual banks. "The (10% teaser) rate is to say, 'Come on in and try us,'" says Michael Cleary, the bank's president.

But rates are not the most important thing. About convenience and customer experience.

To make banking easier, virtual banks often provide pre-paid envelopes for depositing checks by mail. But customers find that cumbersome. "You don't know when the amount will be credited or if the post office will deliver it," says Chris Baerman, a software engineer in Mundelein, Ill. He says one of his deposit envelopes containing two checks, was lost in the mail. He contacted the issuers, asked them to cancel the



E-banking: Steve Chen, who works for a Dallas software company, enjoys using Bank of America's online services. He also has physical access to the bank's branches and ATMs, which are conveniences he requires.

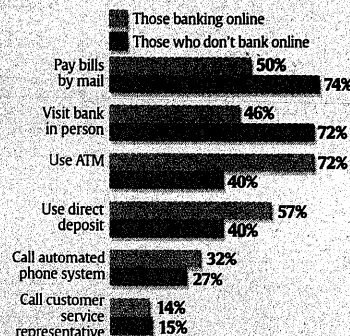
chinese owned by Bank One and its subsidiaries. But they can't use them to make deposits.

American Express launched Membership Banking, a virtual bank, in July. Customers can get cash without a

fee at any of the firm's 8,600 ATMs in the U.S. But to date, the American Express ATMs can't accept deposits, nor can the 1,700 American Express Travel Service offices in the U.S. "We're exploring ways to make our

Banking tradition hangs on

Even those who bank online still use traditional services. For example, 46% say they visit a branch in person.



Source: Cyber Dialogue

By Marcy E. Mullins, USA TODAY

accounts more convenient," says Robin Korn, vice president of business development and marketing.

For most Internet-only banks convenience means finding a way to bridge the virtual and physical worlds. "We're not suggesting that Internet-only banks start building as many branches as Chase Manhattan Bank has in New York," says Chris Musto, director of financial services at consultants Gomez Advisors. But much like Charles Schwab has offices in selected locations, virtual banks may need some physical presence to overcome hurdles to customer acceptance. "It gives customers peace of mind," Musto says.

Linda Banche, a software engineer in Framingham, Mass., says she's not ready to go to a virtual bank. Instead, she uses her local bank's online service to pay bills, check account balances and transfer money between accounts. Normally, she goes to her bank only to get cash. But recently she needed a signature guarantee and was glad she had a nearby branch. "Right now," she says, "the bank I have is working just fine, so why change?"

THE FIRST HIGH TECH, BLUE CHIP CAMERA.

