

What Is Online Banking? Definition, Pros and Cons

Online banks operate without branches. They tend to pay higher rates and charge lower fees than traditional banks.

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What is online banking?

Online banking definition: Online banking means managing your bank accounts with a computer or mobile device. This includes transferring funds, depositing checks and paying bills electronically.

Traditional banks and credit unions with branches typically let customers access their accounts via the internet, too. But online banks and providers offer primarily mobile access. You won't meet a banker face to face, but with a mobile device or computer, you can reach your account anytime. Here's a closer look at online banks.

Pros of online banks

Lower fees

Because online banks don't have to spend money on branch maintenance, they tend to have low or no fees. Many online accounts don't charge monthly service fees, for example, and some don't charge overdraft fees, either.

To compare, accounts at large brick-and-mortar banks often charge a monthly service fee of around \$10, though they may waive it if you meet certain requirements, such as having a \$1,500 minimum daily balance. In addition, the average overdraft fee at large banks is \$35, according to a 2019 NerdWallet study.

Better interest rates

At online banks, deposit accounts tend to have higher annual percentage yields. The best online savings accounts, for example, have APYs around 0.45%. Compare that with the national average savings rate of 0.06%, and some of the largest brick-and-mortar banks, which have savings accounts that earn only 0.01% APY.

A few percentage points difference might not sound like much, but the larger your balance, the more it matters. A balance of \$10,000 deposited for a year at 0.01% will earn a dollar; at 0.45%, it earns just over \$45.

Online cash management accounts are another option for earning interest. These financial products are offered by nonbank service providers, such as brokerages. They typically combine the features of checking, savings and investment accounts, and can also have good yields.

Standard bank services

Though online banks typically offer higher rates and lower fees, many still have basic banking features you can expect to find at traditional banks, including:

- ATM access. A good online bank will be part of an ATM network, like Allpoint or MoneyPass, with thousands of fee-free machines nationwide. If you need to withdraw cash from a non-network machine, some online banks will also reimburse any fees the ATM owner charges.
- Security. Online banks with standard security measures are just as safe as traditional banks. Look for features such as encryption and fraud monitoring, and before you open a bank account, make sure the money is insured by the Federal Deposit Insurance Corp. There are also measures you can take to ensure secure online banking, including avoiding public Wi-Fi networks and keeping anti-virus software up to date.
- Accessibility. You can access your bank accounts and bank services wherever there's internet — on your computer or mobile device — around the clock. You can also reach customer service by phone — in some cases, 24 hours a day, seven days a week.

Cons of online banks

No branches

With an online bank, prepare to have limited access to in-person help. Instead of face-to-face meetings, many banks offer phone-based customer service. Some banks offer assistance via social media and online chat, as well.

Cash can be hard to deposit

Online banks often have cumbersome cash deposit processes. You might have to find a deposit-accepting ATM. Or you may need to put money into a traditional bank account and transfer it to your online account. You could also use cash to buy a money order, and then deposit it electronically using your online bank's mobile app.

Some providers also partner with a third-party service, such as Green Dot, to let retailers and convenience accept cash deposits. But these services typically charge fees of around \$5 for deposits.

Fewer one-stop-shop options

Some online banks have outstanding savings accounts but don't offer checking or certificates of deposit, so you might have to open one type of account at one institution and a separate type of account at another.

What about neobanks?

Financial technology companies that offer banking services are often called neobanks. With these providers, deposits are usually FDIC-insured through partner banks, and accounts often have the low monthly fees and strong rates that many online banks have. However, neobanks may lack traditional banking features, such as access to personal or cashier's checks and wire transfers. They can be a solid option if you prefer online-only banking, but consider these factors before deciding.

Should you open an online bank account?

If you want higher rates and lower fees and don't need frequent branch banking services, an online bank may be worth a look. Keep in mind, you can choose to open an online account without giving up an existing account at your local institution. In fact, having accounts at both a traditional bank and an online bank could give you the best of both worlds — the best savings rates and access to in-person help when you need it.

Or you could take a bigger action and move your accounts to an online-only institution. To learn the steps, read this article on how to switch banks. Either way, you can open a new online account in minutes, and have access at your fingertips at any time.

Source: <https://www.nerdwallet.com/article/banking/pros-cons-online-only-banking>