

Internet Banking: Is it Offense or Defense?

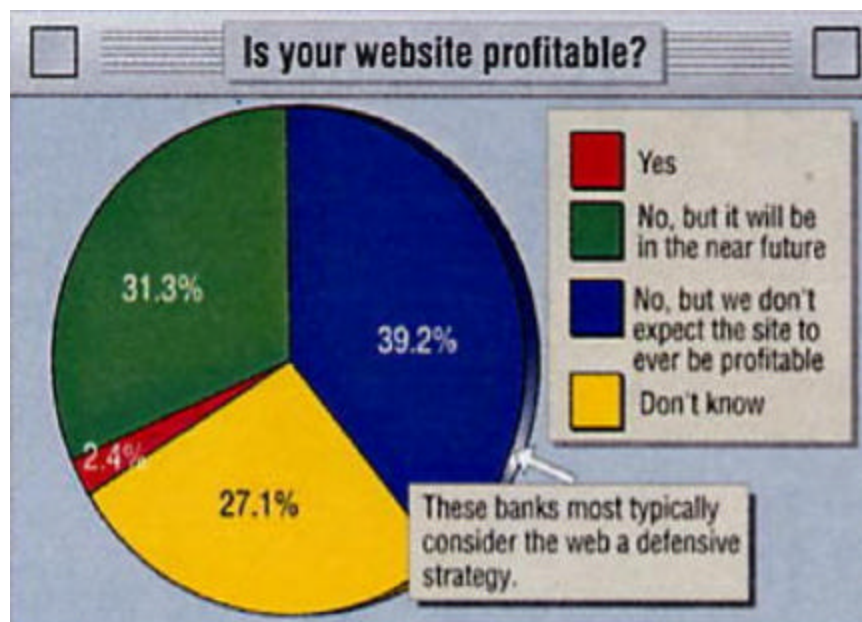
by **Doug Johnson**

Senior Policy Analyst

American Bankers Association

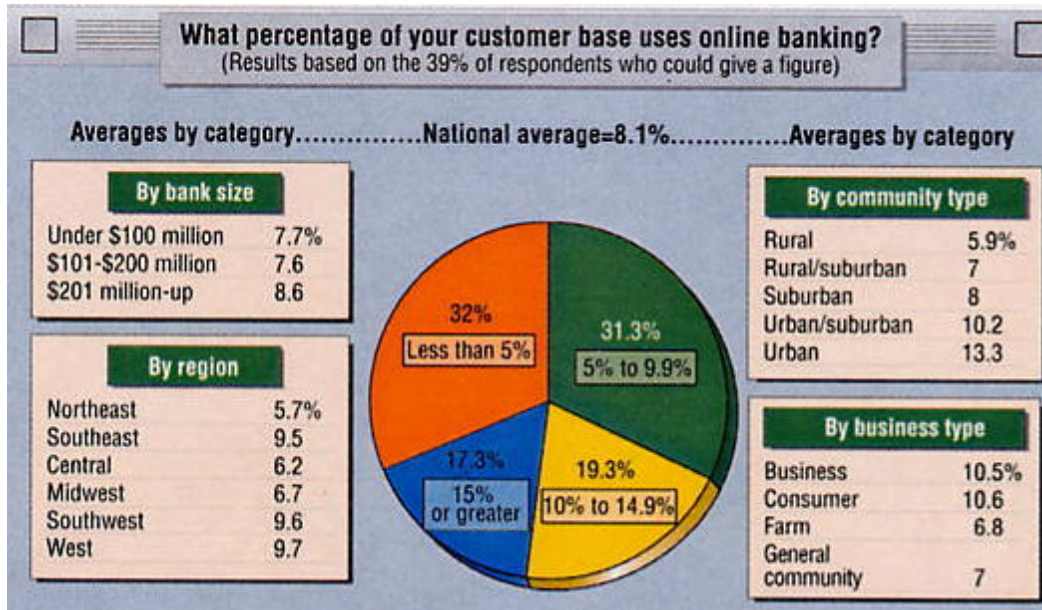
Some of the most difficult questions to answer about Internet banking concern profits and penetration. Should we expect our website to generate profits, or should our expectations be more modest? Should our strategic approach to Internet banking be different if we expect profits? And if we expect profitability, what percentage of our customer base must be online to get us there?

Based on the ABA's recent Community Bank Competitiveness Survey, published as a supplement to the *ABA Banking Journal* in April, bankers are fairly evenly divided as to whether they are playing offense or defense with their transactional Internet sites. The less than 3 percent of community bankers with profitable web sites are clearly playing offense. So are the over 30 percent that anticipate their sites being profitable. Playing defense were the almost 40 percent of bankers that don't expect their site to ever be profitable.



We have all heard about the potential drivers of Internet banking profitability before. They include reduced branch and other operational costs, increased cross-selling opportunities, and potential transactional revenues. While certain cost savings can be achieved today, most of the cross-selling and transactional revenues are still in the future. The development of financial portals offering a suite of financial services and the advent of bank-to-bank transactions via financial aggregation will be important in generating future Internet revenues. Even for bankers playing defense, developing a portal and offering aggregation will become considerations over the next year as part of a customer retention strategy.

What percentage of customers must be online for Internet banking to be profitable? While there are few metrics available to answer this question, Celent Communications' recent research for Digital Insight suggests that a bank with 30,000 customers would need 17 percent of its customers to bank online within 5 years in order to be profitable. Since between 15 and 20 percent of households currently bank in the Internet, such penetration is not out of the question. Based on the ABA survey, community banks as a whole are about half way there. On average, bankers said that just over 8 percent of their customers used online banking. Over 17 percent of bankers said that 15 percent or more of their customers were online.



Bottom line? It is not unrealistic to expect that, ultimately, Internet banking will generate profits for many banks. And the strategies that will be necessary to retain customers - developing a portal and offering account aggregation - are the very ones that can generate profits for the bank.