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## **Summary of survey on Internet banking: Online enrollment, Account opening, and Fraud Prevention May 2004**

The purpose of the Internet banking survey was to gather information on banks' practices and procedures related to enrolling customers in online banking, opening accounts online, and monitoring, detecting, and preventing bank account fraud perpetrated using the Internet as a channel. Thirteen banks, all large institutions, responded to the sixty-six page question survey. The survey addresses practices for consumer, business, and wholesale accounts.

### **Highlights**

- ***Authentication for enrollment for online banking.*** Virtually all banks (92%) allow automated enrollment without manual intervention for consumer accounts. Of those, virtually all (91%) require the use of a debit card personal identification number ("PIN"), among other means of authentication. Approximately 40% allow automated enrollment for business accounts, and none allows automated enrollment for wholesale accounts.
- ***Opening new accounts via the Internet.*** Of the banks responding, approximately 75% of the banks will open a new consumer account through the Internet, 54% will open a new business account, and 15% will open a wholesale account
- ***Funding sources of accounts opened online.*** Generally, all banks accept checks by mail to fund new accounts. About one half accept credit cards and automated clearing house ("ACH") funding. This applies whether an existing or new customer opens the account. All banks permit existing consumer customers to fund the account by transferring funds from another internal account.

- **Disposition of bank account applications.** Banks' dispositions of account applications, from all sources, varies widely. The percentage of consumer accounts opened ranged between 10% and 75%, with an average of 40%. Between 12% and 90% were declined, with an average of 36%. Between 0 and 20% were withdrawn, with an average of 10%.
- **Fraud prevention.** Most banks are using existing tools to detect and prevent fraud associated with online banking. However, banks agree that additional tools are needed to monitor, detect, and prevent deposit account fraud where the Internet is the channel.

**Details on:**

- **Online Enrollment,**
- **Account Opening,**
- **Fraud Prevention**

**Internet enrollment for online access.**

**Qualifications to add online banking to an existing account.** About half of banks have customer qualifications before a customer can add online banking to an existing account. Qualifications include, for consumer accounts, legal age, a qualifying account, and that the person be a signer on the account. All except one bank allow consumer customers online access automatically without human intervention. For business accounts, just under half allow it.

**Authentication requirements.** Ninety-two percent of banks allow automated enrollment without manual intervention. For banks allowing automated enrollment without manual intervention, most, for both consumer and business accounts, require a debit card PIN. In addition, account numbers are required for about 75% of banks for consumer accounts and 60% of banks for business accounts. About half of banks require a Social Security number for both consumer and business accounts. Only about a quarter require the name and date of birth, and 20% require an address for consumer accounts. Only 8% require a mother's maiden name. Other criteria include the amount of the last deposit and the last four digits of a debit card. For one bank, the validation requirements depend on the type of account.

**Automated authentication.** Most banks have an automated method to authenticate the consumer customer at the time the customer applies for online access to an existing account. For business accounts, about half do.

**Viewing accounts online.** About three-quarters of banks permit one or all of the following to **view** accounts online: customer of trust, power of attorney, executors, and owner of court-blocked accounts.

**Welcome/confirmation letters.** Approximately 70% of the banks e-mail welcome/confirmation letters to customers after a customer enrolls for online banking. About a third mail welcome/confirmation letters or terms and conditions.

**Passwords for joint accountholders.** Almost all banks require individual passwords for joint accountholders and all of those provide a clear audit trail of who does what. All banks' terms and conditions address the issue of sharing passwords.

**Changes to users' names or passwords.** Prior to a user name change or password change, most banks authenticate the customer electronically, though in some cases, it is done face to face, by mail, or through a call center.

## **Opening a new account for a customer online.**

*The survey differentiates between opening an account for an existing customer and for a new customer. There were some differences, but most processes were very similar*

**Ability for customer to open an additional account.** Approximately 75% of the banks allow existing consumer and 54% allow business customers to open additional accounts online. None of the banks responding allows a wholesale account to be opened via the Internet at this time. Most of those verify with ChexSystems and require legal age and no negative history with the bank. Most do not have an automated method to authenticate the customer when a customer applies for an additional account online.

**Authentication of customer opening an additional account.** To authenticate a consumer customer, all banks require the consumer's address and date of birth. Most require a drivers' license, employer name, and consumer phone number. About one half require employer address or phone number or the consumer's e-mail address. Only 14% require a mother's maiden name. No one requires annual income, a reference, or data about an existing account. The requirements for authenticating an existing customer are similar to those for authenticating a new customer. No bank requires a debit card PIN to authenticate an existing customer opening an additional account, but most compare application data to existing account data.

**Types of account customers can open online.** All banks allow consumer customers to open checking accounts online. Most, but not all, allow savings accounts and certificates of deposit to be opened online. Only 40% allow brokerage accounts to be opened online. The numbers are slightly lower for existing business accounts to open additional accounts online. The numbers are similar for new customers opening an account online.

**Funding for accounts opened.** Four of ten banks allow additional accounts to be opened without funding. Of those, none sends checks or debit cards except one bank sends both to business account holders. Of banks opening accounts without funding, all four give account numbers to customers, but two of those place holds on the account until the first deposit is made.

**Types of funding for account opened.** The type of funding accepted from a customer opening a new account varies, depending on whether the account is a consumer or business account. All banks accept checks by mail for business accounts, but only 90% do for consumer accounts. All banks allow the additional account to be funded by a transfer from another internal account. About half of banks allow credit card and ACH funding for the additional account, for all types of accounts. Nearly all banks that accept credit card funding verify card ownership, e.g. verify the card owner and address, prior to processing the transaction. The results are similar for new customers opening an account, except that checks by mail are permitted for all consumer accounts.

**Minimum amounts for opening account online.** Minimum amounts for funding varies by account and type of funding.

**Signature card requirements for accounts opened online.** For additional business and consumer accounts opened online, most banks require the signature card or account agreement or both to be returned in the mail before allowing access to the additional account. One bank requires neither if the signature is on file. The practice does not vary by account type.

**Issuance of account numbers for accounts opened online.** Several banks issue account numbers after completion of multiple events: when the consumer is no longer online and after the customer data is authenticated, after the account is funded, and after the signature card received. Several others issue the number when the consumer is no longer online and after the customer data is authenticated, regardless of the receipt of the signature card or funding. One bank issues the account number for consumer accounts during the opening process after authentication while the applicant is online. The results are similar for new accounts opened online by new customers.

For all business accounts and for 70% of consumer accounts, the account number for the additional account is issued during the opening process when the customer is no longer online and after the customer is authenticated. Of banks not part of that 70%, 20% issue the account number when the account is funded and the signature card received, 10% after the signature card is received, and 10% during the opening process after authentication while the customer is online. The results are similar for business accounts, but all wait to issue the account number until after the customer is no longer online and the customer is authenticated.

***Delivery of account numbers.*** Nearly all banks deliver the consumer account number via mail, though one sends it online and another sends it separately through e-mail. The results are similar for business accounts.

***Timing of check and debit card issuance.*** Timing of check and debit card issuance varies: three banks order checks and issue debit cards for consumer accounts after the account is funded, four do so after the account is funded and the signature card received, and three after the signature card is received. For business accounts, three of seven issue the cards and checks after the account is funded and the signature received and three do so after the signature is received. One does so after receipt of the signature and authorization by telephone.

***Transmittal of terms and conditions.*** Most banks notify customers of the terms and conditions by mail with fulfillment packages. One bank provides them online in printable copies only and does not mail other materials. Three banks do both. Those sending copies online require customers to acknowledge receipt.

***Treatment of account if customer does not return documents or signature card.*** Most banks either close the account or do not open the account if the customer does not return documents or the signature card.

## **Online fraud prevention.**

***Responsibility for unauthorized electronic fund transfers.*** Most banks do not make consumer customers responsible for the first \$50 of unauthorized electronic fund transfers per Regulation E. Most banks, but not as many, also do not make business customers responsible for the first \$50 in unauthorized electronic fund transfers.

***Tracking losses where Internet is conduit for fraudulent transactions.*** All but one bank can and do track losses where the Internet is the conduit for the fraudulent transaction, for example, money is fraudulently transferred from an account through Internet banking services. Most, but not all banks can and do track losses associated with account opened through the Internet.

***Monitoring for suspicious activity.*** About one third of banks have special monitoring for suspicious new account activity for accounts opened on the Internet and about a third plan to. The remaining third do not. Most banks do not have separate staff dedicated to fraud prevention/detection for new accounts opened through the Internet or for prevention/detection of transactions on accounts opened through the Internet. More banks, however, have separate staff dedicated to fraud prevention/detection for online banking transactions.