

U.S. Online Banking Goes Mainstream in 2003

Viewpoint

Use of online banking by U.S. consumers is becoming mainstream, with steady growth over the next five years.

Wide availability from retail banks and providers means this is now a basic cost of business. Focus on functionality and flexibility.

Dynamics

- Offering online banking is nearly universal among large retail financial providers, and is widespread among smaller institutions.
- Consumer use of online banking, currently at 17% of adults as of year-end 2002, will increase to 30% by 2007.
- Penetration is higher among key demographic segments, and will pass 50% in desirable segments by 2007.

Predictions

- Banks will lose any ability to generate fee income from basic online banking by the end of this year.
- As consumer use becomes pervasive, the ability to customize screen layout will set a new level of consumer expectation.

Recommendations

- Drop any fees specifically related to basic online banking—account views and internal transfers. Consumers have too much choice.
- Concentrate any additional investments in usability and flexibility.
- Develop alternative layouts for viewing account information. Consumers don't all have the same needs when going online.

Dig Deeper

- Related Research from GartnerG2
- Methodology

David Schehr and Michael Cruz

"American consumers can choose from several locally available banks, thrifts and credit unions if their current provider does not make online banking available."



Viewpoint

Steady growth is likely in the next five years

Online banking is no longer an emerging channel. It is widely available and now part of many U.S. consumers' basic financial tool kit. Further, consumers now see the service as generally available, and part of the basic capabilities they expect from their retail financial services provider. Online banking will be an absolute requirement for those consumers who will actively use the service. But even non-users will view the absence of such offerings as an indicator of inferior service and capabilities. This expectation closely matches the reality of the marketplace. Pervasive availability among retail providers means these capabilities are now a basic cost of business.

Consumer use of this channel relates to account balance and item inquiry, plus transferring funds between accounts within the provider. As a result, retail providers should focus on supporting basic functions (up-to-date account balances, cleared items, fund transfers) that are used by most online customers. Supplemental services should be provided if they strengthen the customer relationship and increase self-service functions cost-effectively. First, ensure that these enhancements are cost-effective. The ones that appeal to a small sub-set of customers, such as account aggregation, can be given lower priority, if pursued at all.

Dynamics

Online banking is becoming a universal offering

In the last several years, provider and consumer perceptions of online banking have changed. As recently as three or four years ago, the issue for banks was whether to offer it, and if so, how much could they charge for this "value-added" service. Some banks saw the opportunity to offload substantial numbers of branch or manned call center transactions to this automated channel. As was the case with ATMs and the call centers themselves, this was a false hope: Consumers are increasing the total number of interactions with their providers, rather than transitioning a portion of a constant level of transactions. Neither of these goals for the online channel are likely to be accomplished.

The availability of online banking is now widespread. Most consumers have access to a number of providers, large and small, who can offer these capabilities.

- A review of the Internet sites for the 50 largest banks and thrifts providing deposit services to consumers shows that every one now offers basic online banking services.
 - 45 out of the 50 offer these services free with even the most basic checking accounts.
 - Among the five banks that charge for online banking, four provide free services with qualifying balances in either the checking account or across the relationship.
- According to the 2002 Community Banking Technology survey from the Independent Community Bankers of America, 54% of community banks now offer Web banking to their retail customers, up from 46% the previous year.
- Many of those community banks that aren't yet utilizing the Internet are seriously considering doing so.

- In the same 2002 survey, 27% of community banks reported having no Web presence—even “brochureware”—at all. But 71% of that group are considering developing informational or transactional Web sites.
- Access to online banking is also widely available from credit unions. Data from the Credit Union National Association shows that as of the end of 2001, nearly one-third of credit unions (32%) offered home banking via PC to their customers.
 - The availability of Internet access is far higher in large credit unions. Among credit unions with assets of \$50 million or more, 89% offer online access. This group accounts for 83% of total credit union deposits.

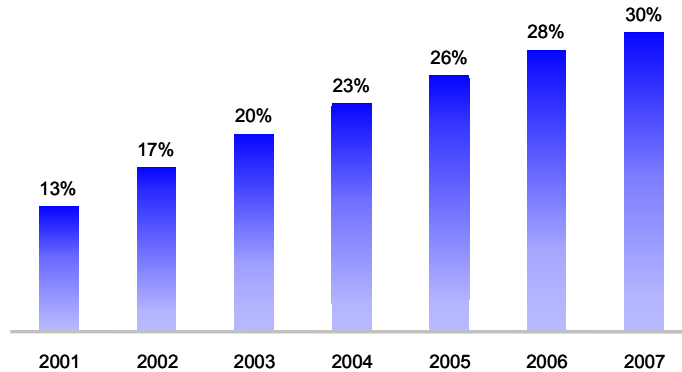
The vast majority of American consumers can choose from several locally available banks, thrifts and credit unions if their current provider still does not make online banking available. Online banking has reached the “Model T” phase: It is now easily accessible, but tends to exist in only one form from a given provider. Product evolution should now focus on features that allow customization and facilitate self-service for routine matters such as check image presentment, check reordering and style selection. The latter capability is already provided by a number of providers, including large institutions such as Wachovia Corporation and SouthTrust Bank, and smaller providers such as Alpine Bank in Colorado and Summit Federal Credit Union.

Consumer use will increase to 30% by 2007

Online banking was launched in the mid-1990s, primarily through dial-up connections and personal finance management software such as Microsoft Money and Intuit’s Quicken. The Internet soon became the dominant access mode—dial-up online banking is virtually gone in the United States. However, it took until late 2002 for online banking to breach the threshold beyond the narrow early-adopter and innovator segments of the consumer population.

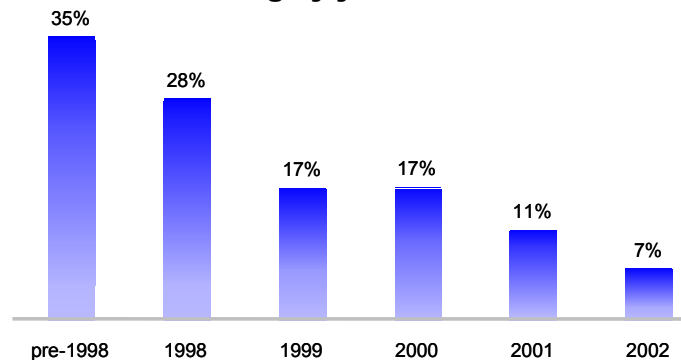
- By late 2002, 17% of the adult U.S. population used online banking services, right in the middle of the 15% to 20% range considered to separate technology-adept groups from the early majority component of the mass market. In other words, we are moving beyond the consumers who use technology simply because it is available to those in the broader population who see value in how it helps them in their daily lives.

Over the next five years, GartnerG2 projects that consumer use of online banking will grow at a CAGR of 14%, to an overall penetration of 30% of the U.S. adult population (see Figure 1). GartnerG2 estimates that usage will grow from 37 million adults in our most recent survey to 67 million by 2007.

Figure 1: Projected growth in online banking, 2002 to 2007

Base: All U.S. adults
Source: GartnerG2, September 2002

Conducting financial transactions online requires a high degree of consumer trust in the security and reliability of the Internet. Consumer research has repeatedly shown that experience is the best teacher for overcoming these concerns. This is definitely the case for online banking. Fewer than one in 10 consumers who started using the Internet since 2001 use online banking. By comparison, more than one-third of those with five or more years of Internet use conduct banking transactions via the Web (see Figure 2).

Figure 2: Use of online banking by year of first Internet use

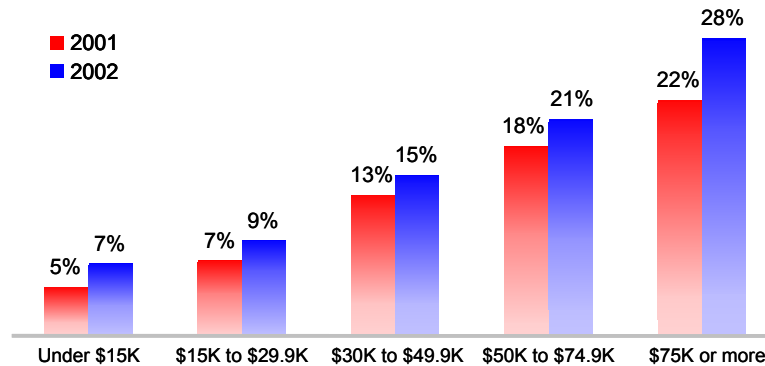
Base: All Internet users
Source: GartnerG2, September 2002

Penetration will pass 50% in desirable demographic segments by 2007

In July and August 2002, GartnerG2 surveyed 2,667 Americans aged 18 or older. Responses were weighted and projected to a universe of 201.3 million individuals in the contiguous United States. Results show that online use is particularly high among groups key to the long-term growth of financial services providers.

- Among consumers with annual household incomes between \$50,000 and \$75,000, more than one in five (21%) use online banking
- In households with annual incomes above \$75,000, online banking usage is 28% (see Figure 3).

Figure 3: Use of online banking by household income

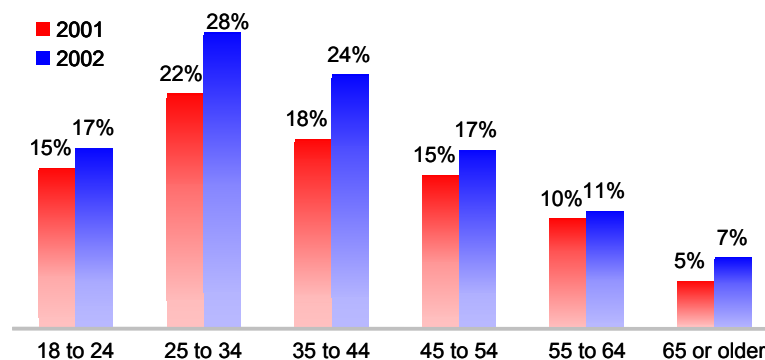


Base: All U.S. adults
Source GartnerG2, September 2002

Adults aged 25 to 45 are also more frequent users of online banking. This group is critical because they are developing a need for more complex and extensive financial services to meet life goals and family responsibilities.

- Home ownership, education funding and retirement planning are top financial priorities for consumers in this age group. Providers looking to serve these customers must first provide basic functionality for utilitarian financial needs, including prosaic aspects such as branch and ATM access, a suitable range of core products and services, and increasingly, online banking. Current online banking adoption levels are at 28% for those 25 to 34, and at 24% for consumers between 35 and 44 years of age (see Figure 4).

Figure 4: Use of online banking by age



Base: All U.S. adults
Source GartnerG2, September 2002

- GartnerG2 projects that continued growth among these groups will result in usage levels of just below 50% among 35-to-44-year-olds by 2007, and above 50% among the younger age group.

Predictions

- **Banks will lose any ability to generate fee income from basic online banking by the end of this year.** Even excluding the pure-play Internet-only banks, consumers in most U.S. markets can choose from several banks that offer free basic online account viewing and fund transfer. Bill payment is even becoming a “freebie”: Several large banks (including Bank of America and National City) offer the services free to all checking customers, and many others waive bill payment fees with moderate balance requirements. Commoditization of online services will eliminate any ability to charge for basic online banking functions. And the ability to charge for bill payment will be greatly diminished in the next two to three years.
- **As consumer use becomes pervasive, the ability to customize screen layout will set a new level of consumer expectation.** In the next year or two, several large providers will offer multiple layouts or customization tools for their online banking customers. These offerings will allow consumers to prioritize the information presented according to their needs, rather than according to the providers’ perception.

Recommendations

- **Drop any fees specifically related to basic online banking—account views and internal transfers. Consumers have too much choice.** Availability is too widespread to offer online banking as a value-added service worth additional fees. The most rapid adopters of online banking are demographically too desirable to be subject to non-competitive “nuisance fees.”
- **Concentrate any additional investments in usability and flexibility.** Most Americans are Internet users, and are accustomed to the conventions of Web page layout and functionality. A review of Web pages shows that many provider sites still lack clean navigation and consistent layout. Don’t make it difficult for your customers, and especially your prospects, to find information about your online offering. Simple, uncluttered home pages, consistent labeling of information, and clear access to conditions, fees and FAQs are basic elements of an effective consumer-facing Web site. Helping consumers obtain routine support through self-service can strengthen relationships and reduce costs. These include check reordering, address or other information update capabilities, and the ability to view and download check images (when physical checks are not returned). These services can also be done through alternative electronic channels, such as sending e-mail alerts to reorder checks.
- **Develop alternative layouts for viewing account information. Consumers don’t all have the same needs when going online.** Priorities for information availability and presentation vary among customers (or even for a single customer as personal situations change). Some want quick access to balances and cleared items, while others want more comprehensive information and planning tools. If offering fully customized sites is not feasible, consider providing a dynamic choice of two or three different formats that match broad consumer preferences. It has been a long time since banks offered customers just one color and style of checks. Think of online banking in the same way: Offer different configurations of information presentation to meet consumers’ different tastes.

- **Non-U.S. retail financial services providers should study the U.S. experience for indications of shifting market dynamics.** While each country's situation is somewhat different, the trends toward universal availability and lowered costs to consumers are likely to spread. View the American market as an indicator of future trends, and plan accordingly.

Dig Deeper

Related Research from GartnerG2

Report: [Integrate Your Channels From Your Customers' Perspective](#)
By Susan Landry and David Schehr (31 January 2003)

Report: [Rethink Bank Branch Strategies: The U.S. Market Is Changing](#)
By David Schehr (31 January 2002)

Report: [Fools Rush In Where Aggregation Fears Need Soothing](#)
By Graham Taylor (14 February 2002)

Methodology

Information in this report is based on a GartnerG2 consumer mail survey fielded during July and August 2002, to a representative sample of U.S. households. Respondents included 2,667 adults aged 18 or older. Responses were weighted and projected to a universe of 105.5 million households and 201.3 million individuals in the contiguous United States. Supplemental data from earlier periods is also presented. Analysis of large U.S. bank Internet offerings is based on a review of specific sites during December 2002. Additional data from external sources are attributed as appropriate.

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