

Online Banking.... Embraced by Members - The Next Steps

TowerGroup has been closely monitoring developments in consumer online banking and now reports that almost 40% of all US households bank online, and the number increases approximately 4% a year. Perhaps more interesting is that the online bank continues to outpace every other channel in number of transactions, growing at over 27% annually and slowly becoming the most powerful channel the bank has ever deployed. The online bank stands uniquely poised to become nothing less than the "core" of the delivery channel architecture, delivering value and support indirectly through collaboration with the ATM, call center, and branch.

While online banking adoption rates are impressive considering the channel is a scant 12 years old, credit unions still want more online members. To get them, credit unions must address two key issues: security fears and apathy. General consumers' concerns about online fraud spill over into concerns over the safety of online banking. Fortunately, Internet banks' implementation of stronger authentication techniques and education on avoiding Internet fraud have helped allay consumers' fears. Many credit unions report a pickup in both online banking activations and transactions since the implantation of multifactor authentication techniques. Thank you, Federal Financial Institutions Examination Council (FFIEC)!

The second barrier to online banking adoption is apathy; consumers simply do not understand the benefits of online banking. Credit unions that have successfully penetrated over half of their member base spend a considerable effort educating their members and prospects on the benefits and ease of online banking. They reach most prospects via Internet and in-store marketing. According to TowerGroup primary market research, 93% of all consumer banking customers continue to visit a branch at least once a month, making this the most effective channel for converting current members.

In the next few years, credit unions will try to continuously improve their members' online banking experience by making the channel more usable, useful, and potentially indispensable. Improvements include implementing similar transaction categorization, functionality for spending analysis, and capabilities for planning and budgeting as provided by personal financial management (PFM) tools like Quicken from Intuit Inc. and Microsoft Money. Credit unions also want to simplify online payments and adopt an "online payments hub" paradigm in which the consumer is concerned only with the payee, payment speed, and payment cost instead of the payment mechanism. Finally, keep an eye on mobile banking and Web 2.0 technologies (including blogs, podcasts, and really simple syndication, or RSS, feeds) for future enhancements.



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George Tubin is senior analyst in the Delivery Channels practice at TowerGroup. The TowerGroup is one of the world's leading advisory research and consulting firms and is focused on the global financial services industry. For more than a decade, they have been providing the world's top financial services, technology, and professional services companies with trusted advice and continuous, timely, and objective information. Headquartered near Boston in Needham, Massachusetts, with offices in New York, London, and Kuala Lumpur, they act as a premier advisor to thousands of executives in financial institutions, technology companies, and professional services firms.

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