



e- banking evolves

Shifting consumer attitudes lead to growing acceptance

With a packed work schedule and an active social life, Anne Skinner is constantly on the lookout for ways to save time when it comes to her weekly to-do list.

“Not having to adjust my schedule to meet the bank’s hours is a real plus,” says Skinner, a college career counselor at Rockhurst University in Kansas City, Mo. “I don’t have to balance my checkbook because I just check what I spend online and I get instant feedback.”

Even if she broke out a pencil and calculator to balance her checkbook, she might

not have anything to record. Skinner uses her debit card or online billing services to pay for almost everything. She has also applied for a loan online and uses cash and checks only occasionally.

“About 95 percent of my banking is probably electronic or online,” she says. “The only time I go into a bank is to cash a random check every once in a while.”

Skinner is representative of a rapidly growing number of consumers—usually young and educated—who have turned to the electronic world to serve their financial needs.

While roughly half of consumers still conduct their bank business face-to-face at physical offices, surveys show that electronic banking services have become much more popular, says Eric Robbins, a policy economist at the Federal Reserve Bank of Kansas City. He recently examined consumers' attitudes and adoption of e-banking with Jeanne Hogarth and Casey Bell of the Federal Reserve Board of Governors' Consumer and Community Affairs staff.

"Looking at the entire population, slightly more than 50 percent prefer in-person contact at brick-and-mortar locations," Robbins says. "But those who use online banking are much more likely to prefer electronic banking services over face-to-face interaction."

Robbins found that shifting consumer attitudes of e-banking services have led to greater acceptance of the new technology over the last several years. The group's research is based on two national surveys: the Survey of Consumer Finances, which is conducted every three years by the Federal Reserve and the Internal Revenue Service, and the Surveys of Consumers, conducted by the University of Michigan.

"The biggest factors that influence consumer attitudes about e-banking are the perception of security, the perception of convenience and consumer knowledge and familiarity," Robbins says.

Changing attitudes

At F&M Bank, employees like to say that the institution, which has nine branches in the Tulsa, Okla., area, is high-tech without losing its focus on the "high-touch" service many customers prefer.

Asa Adamson, senior executive vice president/cashier, remembers the early days of online banking and the challenges of providing a secure electronic banking environment.

"The encryption technology was pretty crude," Adamson says. "While some customers were eager to use

online banking, there were many who weren't interested, so we went several years before we offered it. We kept our ear to the ground and monitored our customers until we saw that offering online products would impact their decision of where to bank."

The bank outsources its retail and wholesale online banking products to a third-party vendor, and customers appear to be happy with the level of service and products provided.

"It's too expensive for a community bank to be a pioneer in many of the online products being offered," Adamson says. "We simply don't have the resources. But we are close behind what the large banks are offering. While our system isn't proprietary, it allows us to remain competitive."

Adamson notes that even with the improvements in technology, many customers are still concerned about security. Industrywide, those concerns are among the largest barriers to e-banking adoption. Robbins found that more than half of the U.S. consumers surveyed reported that they are concerned about the safety of their money and the security of their personal information when it comes to e-banking.

Publicity surrounding recent data breaches doesn't help ease those worries, Robbins says. Banks must also battle spam e-mails, phishing attempts and computer viruses in their effort to reassure customers that electronic banking is safe.

"Adoption of e-banking is still positive, but improving confidence in the security and privacy of these technologies could result in even more people moving to e-banking," Robbins said.

Guaranty Bank & Trust in Denver, which has 34 branches around the Denver area, is among the institutions putting a premium on security when it comes to electronic transactions. The bank has instituted a multifactor authentication system that asks customers several questions to verify their identity as they access their online accounts.

"It's vitally important that customers feel



Who's e-banking?

Based on demographic information collected in the Survey of Consumer Finances and the University of Michigan's Surveys of Consumers, Kansas City Fed economist Eric Robbins and his Federal Reserve System colleagues have developed a profile of consumers who are likely to adopt e-banking services.

The Michigan Surveys of Consumers show that higher income households are more likely to have a bank account and thus are more likely to use e-banking products such as online banking, debit cards and account transfers. However, Robbins says the growth in the number of low- and moderate-income (LMI) households using electronic banking services is notable.

For example, the percentage of LMI households using preauthorized bill payment has doubled from 1999 to 2006. Likewise, online banking among the lowest-income consumers grew from 17 percent to 30 percent over the same period.

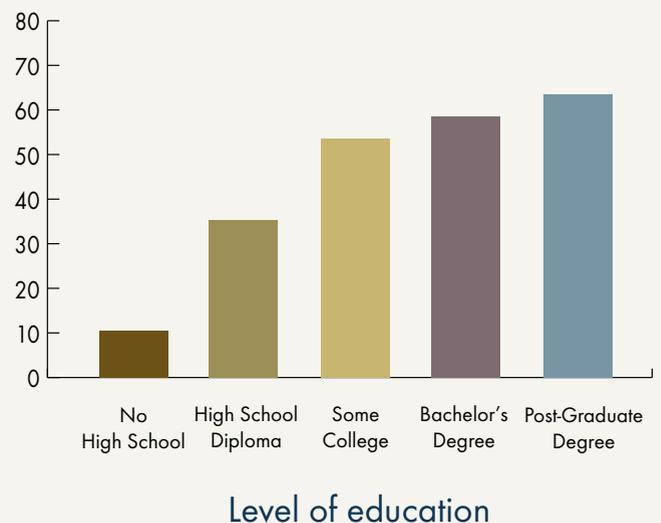
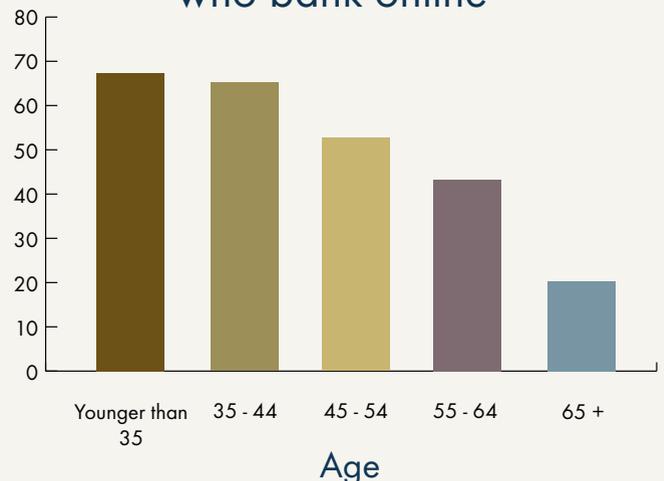
E-banking adoption also is tied closely to age. In general, the younger the consumer, the more likely they are to use ATMs, debit cards and online banking.

But older consumers are catching on quickly. From 1999 to 2006, the number of older consumers using ATMs and preauthorized bill payment doubled; the number using phone banking tripled; and the percentage of older online bankers increased tenfold.

In addition, education appears to be a significant factor in the usage of e-banking services, the researchers found. E-banking levels are rising across all education levels, but there is a sizeable gap between less-educated consumers and those with the most education.

"That gap may be more of a function of who has Internet access," Robbins says. "The populations with less education are less likely to have computers or high-speed connections, so it makes sense that they are less likely to use online banking services and other electronic products."

Percent of consumers who bank online



their transactions are safe and their privacy is being guarded,” said Nancy Smith, senior vice president at Guaranty.

Convenience, familiarity

Another issue that has affected the acceptance of e-banking is consumers’ perception of convenience. Since 1999, the Michigan Surveys of Consumers have shown that a growing proportion of consumers feel e-banking helps them better manage their finances. In addition, consumers are less concerned with not being able to interact with people while conducting transactions.

“Financial institutions that want to increase the adoption of e-banking can help show how these products make banking easier,” Robbins says. “For example, setting up preauthorized payments can help consumers pay their bills on time and avoid late fees.”

Similarly, improving consumer knowledge and familiarity with e-banking services can increase adoption of such products, he says.

“Increasing familiarity of e-banking appears to provide the opportunity for the largest boost to consumer adoption,” Robbins says. “The data we reviewed indicate that if consumers become more familiar with e-banking and have greater access to the technology, overall adoption could increase significantly.”

Looking to the future

While e-banking products such as online bill payment, debit cards and direct deposit have continued to gain widespread acceptance, consumers and banks are already focusing on emerging technologies such as mobile payments.

Not surprisingly, surveys show that it’s the youngest group of consumers—those born after 1980—that is most receptive to using cell phones or PDAs to pay for things and carry out bank transactions.

As with other e-banking services, there are also concerns among consumers about the security of mobile payments. Robbins says a common worry is that losing a cell phone

equipped for mobile payments would be similar to losing a wallet.

“There is a barrier of familiarity with mobile payments,” Robbins says. “Right now, many people say they are unlikely to use it. There are also infrastructure issues as to how mobile payments would work. There is a need to develop a common platform for the technology.”

F&M Bank’s Adamson says the lack of a common platform is one reason why his bank has decided to wait and see how the mobile payments arena evolves before stepping in.

“There’s a real lack of standardization,” Adamson says. “What works well with one cell phone provider doesn’t work with another.”

“The very competent computer and PDA users are the most confident users of our electronic products. A lot of people are still getting PCs for the first time and would be more reluctant.”

Skinner, who is in her late 20s, says the idea of using mobile payments is intriguing, but she, too, is concerned about security.

“For me, I would be concerned about my phone getting stolen or lost, or accidentally buying something,” she says. “But 10 years ago, I wouldn’t have thought I’d use online banking as much as I do now.”



BY BILL MEDLEY, SENIOR WRITER

FURTHER RESOURCES

“U.S. HOUSEHOLDS’ ACCESS TO AND USE OF ELECTRONIC BANKING 1989-2007”

By Eric Robbins, Jeanne M. Hogarth and Casey J. Bell

“LOCATION, LOCATION, LOCATION:

HAS ELECTRONIC BANKING AFFECTED THE IMPORTANCE OF BANK LOCATION?”

By Eric Robbins

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