



Still earning interest

Despite online technologies, customers value bank location

Even though Stephanie Laws is responsible for the family banking, she refuses to balance the checkbook, rush to the bank before closing time or stand in long teller lines.

For the past five years, Laws hasn't had to. "I love online banking," she says.

Laws, of Kansas City, Mo., does the majority of her banking from her home computer, logging on for just a few minutes three to five times a week to check account balances, pay bills and monitor direct deposits.

It's easy, convenient and, most important for the new mother and young professional, banking online saves time, she says.

Laws estimates she visits her bank only once or twice a month, but she still ranks location as one of the most crucial features a bank can offer its customers.

Laws is not alone. Despite increasing use of electronic banking, the majority of U.S.

households still consider bank location the most important factor in choosing their primary financial institutions, says Eric Robbins, a policy economist at the Federal Reserve Bank of Kansas City.

"Widespread use of online banking technologies doesn't mean the importance customers place on bank location has declined," Robbins says.

Robbins recently researched the effect electronic banking has on the importance of bank location to consumers. His research is based on interviews with banks from around the Tenth District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern

New Mexico, as well as the Federal Reserve Survey of Consumer Finances, which is a triennial interview that includes financial services information from more than 4,000 U.S. families.

Robbins concludes that although the popularity of e-banking has grown in the

online-only bank, although it has since discontinued Internet operations.

At that time, 35 percent of households with bank accounts had an ATM card, 20 percent used a debit card and a mere 4 percent used some type of online banking service, according to data from the Survey of

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past 10 years, a large percentage of customers still don’t use these online technologies. And those who do, continue to value their bank’s location.

“E-banking is not a perfect substitute for a physical presence in the marketplace,” Robbins says. “Bank location is relevant to consumers for the same reason electronic banking is relevant—bank customers value convenience.”

E-beginnings

More than a decade ago, the banking industry underwent considerable change. As banks were consolidating, e-banking was emerging. In 1995, Wells Fargo Bank was the first to offer online account statements and Security First Network Bank became the first

Consumer Finances. However, more than 50 percent of U.S. households used direct deposit.

During the early years of e-banking, bank location was still a key factor in choosing a bank for most households. Among 31 possible factors, nearly half of those surveyed said locality was most important. With the exception of the number of services offered and low fees, other factors were almost insignificant.

“The importance of bank location is not surprising given the options available to consumers at that time,” Robbins says. “Most households didn’t have ATM cards and were not using debit cards.”

Since 1995, computer banking use has increased by more than 800 percent and debit card use has increased by more than 200 percent. Use of automatic payments, ATM cards and direct deposit services also has increased significantly.

In many cases, consumer adoption of some e-banking products appears to be reaching maturity. For some products, the growth in adoption peaked between 1995 and 1998, Robbins says.

However, research shows 30 percent of banks still don’t offer online banking. And many that do, like Peoples Bank in Lawrence, Kan., view it as another feature—not the banking wave of the future.

Face time

The smell of fresh baked cookies fills the air, inviting guests to the comfy living room to



STEPHANIE LAWS likes banking online for its convenience. Although the popularity of e-banking has increased, a large percentage of customers, like Laws, still opt to visit their bank and value its location.

watch TV or read, in addition to doing their banking. The cozy setup is actually the lobby of Peoples Bank, where the motto is “banking unusual.” That means “people over technology,” says Wint Winter, president and CEO.

“We absolutely value the face-to-face over online contact,” Winter says. “In our case, it (e-banking) will never substitute or act as a proxy for face-to-face consultative service.”

Peoples Bank customer and local attorney Steven Massoni does a large portion of his business and personal banking online, but says there are some things, like making deposits, that he’ll always go into his bank to do.

E-banking technologies may not be a perfect substitute for personal interaction.

“Rather than acting as a substitute for services offered by bank branches, e-banking products are likely viewed by consumers as complementary to bank locations,” Robbins says.

Roughly 44 percent of customers visit their bank at least once a month, according to Robbins’ research, and they still want face-to-face service, even if they do the majority of their banking online.

Data from the Federal Reserve show most customers who use online banking services do

so to monitor their accounts and only about half of them pay bills online. Those most likely to e-bank are younger, more educated, higher-income households.

For Peoples Bank, which has 14 locations, online banking is viewed as an extension of service, like ATM or phone banking, Winter says. Instead the bank focuses on customer interaction, offering personal attention and small perks, such as gourmet coffee, with each visit.

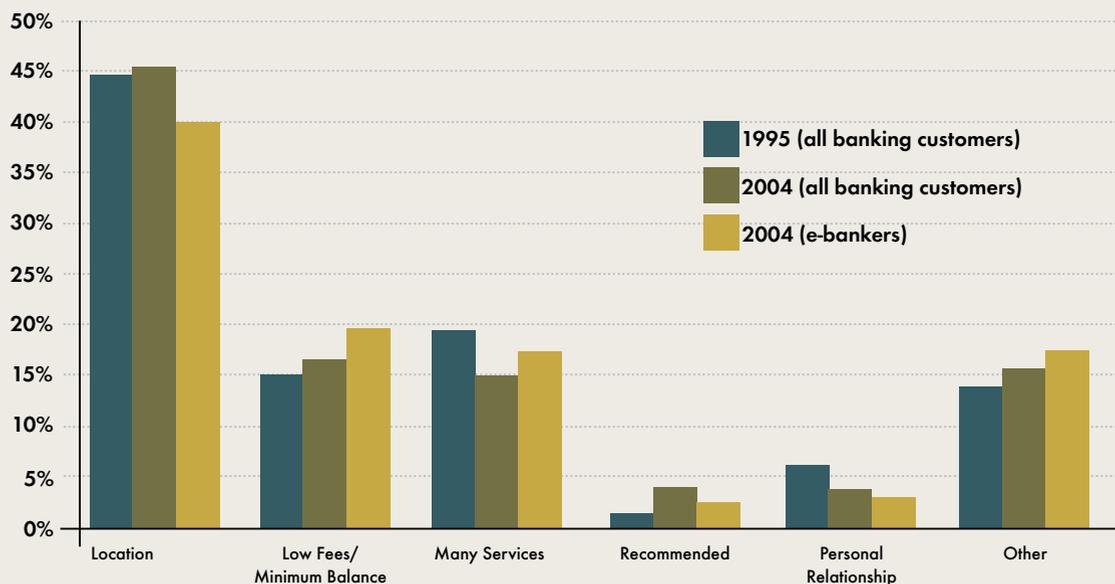
Still, Peoples’ customers are banking online. In the last 14 months, the number of online users has nearly doubled, as have users of online bill pay. But, this doesn’t mean Peoples will shift its efforts electronically, although it already has upgraded its website and will continue to do so in the future.

“The bottom line is: Focus on service but don’t ignore e-banking,” Winter says. “We’ll always choose that strategy.”

Location, location, location

Robbins says the importance of bank location may vary depending on a number of factors, such as a consumer’s distance from a bank. Data show the majority of U.S. households are less than five miles from their bank.

Customers’ Most Important Reason for Choosing a Bank



Source: Federal Reserve Survey of Consumer Finances



ALTHOUGH HE PREFERS TO BANK ONLINE, Steven Massoni still visits Peoples Bank regularly. He chose Peoples because of its proximity to his office.

Those who live a greater distance from their bank may place less emphasis on its location because they don't have options like those who live near multiple banks.

Even though they may be miles away, Bank of Commerce customers in rural Rawlins, Wyo., and the sparsely populated surrounding area also prefer to visit their bank rather than log onto the bank's website, says Sherrod France, president.

Bank of Commerce was the first in the county to offer online banking about five years ago, but today only about 15 percent of customers use the service.

As a result, the bank's strategy is to grow physically rather than electronically, with additional branches and ATMs within the 100 square miles of the county.

This seems to be the trend nationwide. Despite the increased adoption of e-banking and overall consolidation among banks, the number of bank branches and ATMs has steadily grown, Robbins says. Since the early '90s, the number of new branches has increased by 2 percent on average, increasing to about 3 percent by 2005. ATMs have boomed since the early '90s, from less than 30,000 to nearly 400,000 by 2005.

Additionally, growth in retail branches, such as grocery stores, is outpacing stand-alone bank branches, which increased by 12 percent in 2005.

"As a result, even bank customers who do not adopt sophisticated e-banking products, like online banking, can benefit from more convenient locations," Robbins says.

E-banking on the future

Although he founded Bank of Blue Valley and serves as president of its five locations in eastern Kansas, Bob Regnier has gleaned some insight, not just from industry experience, but also from one of the bank's customers in particular: his 25-year-old son, who lives in California but banks with Blue Valley via the Internet.

"Younger bank customers have a different approach," Regnier says. "(Online banking) isn't an additional selling point. This is a necessity."

While Regnier acknowledges bank location is most important now, he predicts a large shift toward e-banking as younger demographics, like his son's, characterize the majority of banking customers. But in the meantime, Bank of Blue Valley likely will build branches every few years, Regnier says, noting online banking will never completely replace location banking.

Robbins says survey data may not reflect a shift in importance of bank location to e-banking; it may be too early to see the impact. As younger customers continue to adopt e-banking, the impact will become more prevalent.

"Ten years from now, five years from now," Regnier says, "if you don't have an online product, you're not going to be competitive."



BY BRYE STEEVES, SENIOR WRITER

FURTHER RESOURCES

LOCATION, LOCATION, LOCATION: HAS ELECTRONIC BANKING AFFECTED THE IMPORTANCE OF BANK LOCATION? By Eric Robbins
www.KansasCityFed.org/TEN

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.