

STRATEGIES FOR  
FINANCIAL  
INSTITUTIONS

- Internet banking
- Web services
- Bill payment
- Email
- Innovations
- Online marketing
- Interactive lending

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2004/2005 PLANNING

Premium channels promise improved ROI

For 2004, it's time to think like a cable TV exec; provide a basic level of service, then upcharge power users for the good stuff, both on a subscription and pay-per-view basis. Leading the pack is **Online Resources** with its upcoming *Money HQ* option built on funds transfer and aggregation technology from **CashEdge** (OBR 96/97, p. 26).

**1st Source Bank**  
(South Bend, IN; \$3.3 bil)  
now offers three online banking choices:  
(1) free online access  
(2) *Premium Online Banking* (\$3/mo)  
(3) *Premium with Bill Pay* (\$6/mo)

Until recently, segmenting your online banking base wasn't worth the trouble; the total audience was too small. But with two-thirds of the country online, and half of those banking online, the target market is now huge and lucrative. Financial providers of all shapes and sizes will enter the premium service market. And thanks to aggregation technology, you are vulnerable to banks all over the country, not just those in your home territory. Users can maintain a checking account at your bank to enjoy the convenience of free ATMs, branch services, and local staff, while steering their investable assets and loan business to other providers.

This competition isn't a new threat. In fact, it's been a worry ever since the commercial Internet took root in 1996. But until recently, users didn't trust the medium enough to move crucial banking business to unknown Internet-oriented companies. But now that well-known Internet brands have survived the shakeout, long-term trust is growing, making online competition more formidable. Proof: despite a shrinking interest rate advantage, **ING Direct** continues to grow its U.S. account base at a rapid rate, surpassing 1 million accounts in second quarter, up from 700,000 a year ago. It's proof that an understandable product value combined with good marketing can create a powerful new financial brand.



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## BUILDING THE CASE FOR INCREASED INVESTMENT

In these uncertain times, your 2004 budget won't increase without a battle. Following are some of the major ways to make the case for increased investments. See also OBR 96/97 (pp. 8-10) for a more thorough discussion.

- Account retention
- Competitive necessity
- Premium service fees
- Incremental cross sales, especially loans and credit products
- Increased transaction fees
- More effective use of marketing dollars
- Cost reductions through self-service

### Allocating Scarce Budget Dollars

If you are looking for the biggest bang for your buck, look to online lending (pp. 11-14) and small- and micro-business initiatives (pp. 25-29). According to Celent's groundbreaking study across 1.5 million **Digital Insight** users (in 2001), online lending generates four times the combined value (NPV) of banking/bill pay. Business services were even more valuable, resulting in returns of nearly six times that of banking/bill pay (see below).

Table 1  
NPV from various online banking products

Product	\$ Return (NPV) <sup>1</sup>		
	5-Yr Total	Per Cust <sup>2</sup>	Index
Banking, statement info.	\$6,000	\$0.12	1x
Bill pay	\$17,000	\$0.33	3x
Lending	\$83,000	\$1.65	14x
Small business	\$123,000	\$2.45	20x
Total	\$228,000	\$4.56	38x
<b>Combinations</b>			
Banking and bill pay	\$23,000	\$0.45	4x
All except small business (lending, banking, bill pay)	\$105,000	\$2.10	18x

Source: Celent, 10/01 For a better understanding, read Celent's *Customer Retention and Cost Savings Drive Online Banking ROI*, Oct. 17, 2001  
(1) NPV over 5 years at a 50,000-customer bank; includes direct revenues, cost savings, and retention. (2) Per-customer figures are across all customers, on- and off-line, consumer and small business.

### 2003 Thinking Exercise: Premium Online Banking Channel

If a picture is worth a thousand words, what's a live demo worth? Even though we go to great lengths to describe innovative new services, it doesn't really sink in until you've personally sampled it. To loosen the cobwebs, choose this year's exercise, 1st Source Bank's premium online banking (below), or any previous ones:

- Alerts (2002): Use *fyiAlerts* from Charter One
- Savings (2001): Open a savings account and setup automatic transfers at ING Direct
- P2P Payments (2000): Pay for an eBay purchase with PayPal (now owned by eBay)
- Account Aggregation (1999): Signup and use account aggregation at VerticalOne (now Yodlee)

#### 2003 Exercise:

#### Premium online banking with 1st Source Bank

South Bend, Indiana-based 1st Source Bank (\$3.3 billion) is one of the first financial institutions to launch a premium option for online banking customers. For this exercise, you don't need to signup for an account. A visit to the bank's website should give you enough food for thought.

#### Time Needed:

- 30 minutes

#### Material Needed:

- pencil and paper

#### Instructions:

1. Visit the bank <[www.1stsource.com](http://www.1stsource.com)>.
2. Find the online banking section.
3. Observe how the bank positions the various options for online banking. Make sure you look at the comparison chart.
4. Now think about your own online banking features and benefits. How could they be organized into free and premium channel(s)?
5. Create a comparison chart similar to 1st Source's <[www.1stsource.com/onlineFeatures.cfm](http://www.1stsource.com/onlineFeatures.cfm)>. ☺

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# CONSUMER STRATEGIES

## ONLINE STRATEGY MATRIX

*The following matrix is designed to help the strategic planning process. Consumer strategies are divided into three categories: products, general marketing, and customer satisfaction/service strategies. Each tactic is categorized as either: Column 1: State-of-the-art, features needed to be among the best online providers: the best out there; Column 2: Competitive Advantage, features that differentiate you from the competition; Column 3: Other tactics.*

Strategies	Pages
<b>A. Consumer Section</b>	
1. Product-marketing strategies,	
A. Checking accounts	11
B. Credit/loans	11
C. Deposits/savings	14
D. Financial management	15
E. Insurance	15
F. Investments	15
G. Payments	16
H. Security and privacy products	17
2. General marketing strategies	
A. Increase flow of prospects to website	18
B. Enroll more online banking users	19
C. Enter new geographic markets	20
D. Attract new residents and movers	20
E. Target vertical/niche markets	20
F. Increase referrals and word-of-mouth	21
G. Appeal to investors	21
3. Online banking satisfaction strategies	
A. Increase activation and usage	22
B. Encourage/reward self-service	22
C. Improve community involvement	23
D. Increase trust of ecommerce	24
E. Improve quality	24
F. Save defecting users	24
<b>B. Small Business Section</b>	25
<b>C. What to Charge: pricing online services</b>	30

# CONSUMER STRATEGIES

State of the Art Features <sup>1</sup>	Tactics for Competitive Advantage <sup>2</sup>	Others
<b>1. Product Marketing Strategies</b>		
<b>A. Checking/transaction products (see also, Financial Planning; Payments)</b>		<b>Reference: OBR 96/97, 64/65, 38/39</b>
<ul style="list-style-type: none"> <li>• Clear privacy policy, security procedures, and fraud guarantees</li> <li>• Easy online account opening (OBR 59, pp. 14-19)</li> <li>• Initial deposit via ACH (electronic funds transfer)</li> <li>• Opt-in for marketing communications</li> <li>• Paper check reordering</li> <li>• Self-service</li> <li>• Simple account access</li> </ul>	<ul style="list-style-type: none"> <li>• Account aggregation (OBR 96/97)</li> <li>• <i>Deposit</i> button to automatically move money via ACH from other accounts into yours (see <b>X.com</b>, OBR 59, pp. 14-19)</li> <li>• Download facility into Quicken (QIF), Money (MNY) and Excel</li> <li>• Electronic transfers (ACH), inbound and outbound</li> <li>• E-statements (daily, weekly, monthly, quarterly, YTD, annually)</li> <li>• Images (paper checks)               <ul style="list-style-type: none"> <li>– archives</li> <li>– emailed (each item, or daily, weekly, monthly)</li> <li>– unlimited storage (for a fee)</li> <li>– CD/ROM delivery (daily, weekly, monthly)</li> </ul> </li> <li>• Lifetime transaction/image archives</li> <li>• Overdraft protection with email confirmations</li> <li>• Performance/service guarantees</li> <li>• Person-to-person payments (OBR 81, 82, 83, 86)</li> <li>• Premium channel with advanced services and functionality</li> <li>• Quick-start signup with ATM PIN (OBR 93/94, p. 11)</li> <li>• Real-time transfers (see <b>E*Trade</b>, OBR 96/97, p. 30)</li> <li>• Toolbar, bank branded (OBR 85; see also <b>Yodlee's</b> latest offering, &lt;corporate.yodlee.com/solutions/personal_finance/toolbar/index.html&gt;)</li> <li>• Transaction monitor, email if any transaction</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Account closure</i> form that facilitates the process of closing accounts at other financial institutions and transferring balances</li> <li>• ATM surcharge refunder (OBR 45, p. 20)               <ul style="list-style-type: none"> <li>• Automated outside account sweep using account aggregation and ACH</li> <li>• Backup (automated) and lifetime secure digital storage (OBR 48, p. 4)</li> <li>• Bounty for accounts closed with the online form</li> <li>• Chat option after users linger in an area</li> <li>• Credit/debit card option for initial account funding</li> <li>• Cyber-branding, e.g., <i>Digital Checking</i></li> <li>• Leads from loan marketplaces, such as Lending Tree (OBR 72, pp. 12-17)</li> <li>• Paper check sales to customers of any bank</li> <li>• Person-to-person payments gateway that connects between your bank and all major payment programs, especially <b>PayPal</b> (OBR 54)</li> <li>• Popups when customers abandon applications (OBR 80, p. 18)</li> <li>• Real-time session tracking such as Amazon's <i>Page You Made</i> and <i>Your Recent History</i></li> <li>• Relaunch of online checking account services</li> <li>• Scanned or faxed deposits with overnight delivery; user faxes or emails a deposit slip including an image of each check and bank provides immediate provisional credit and an email confirmation to user; user then overnights the deposit items; bank sends second confirmation email (if the checks are not received the next day, the bank taps a credit line for the balance)</li> </ul> </li> <li>• Statement forwarding option (estatements, OBR 91/92)               <ul style="list-style-type: none"> <li>• Statement vault (see <b>Zions</b>, OBR 91/92, p. 5)</li> <li>• Third-party fraud guarantees (OBR 93/94)</li> <li>• Virtual transaction accounts (OBR 64/65; 50/51)</li> </ul> </li> <li>• Voice (automated) notification services</li> </ul>
<b>B. Credit products: mortgage, home equity, installment, revolving, credit cards</b>		<b>Reference: OBR 83/84, 73, 72, 66, 43, 37, 36, 35, 34, 30, 17</b>
<ul style="list-style-type: none"> <li>• Account access</li> <li>• Calculators, basic payment and amortization</li> <li>• Checkbox on deposit applications requesting qualification for revolving credit</li> </ul>	<ul style="list-style-type: none"> <li>• Account aggregation, aka <i>virtual loan service center</i> or <i>virtual credit manager</i>, with payment engine and loan account aggregation with incentive to refi loan balances at your financial institution (OBR 66, p. 11)</li> <li>• Balance-transfer form, Web-based (OBR 72, pp. 18-19; 66, p. 12; 37, pp. 12-19)</li> </ul>	<ul style="list-style-type: none"> <li>• Advice/reference centers (OBR 30, p. 9)</li> <li>• Analysis of existing loans to find money-saving opportunities (OBR 30, p. 10)               <ul style="list-style-type: none"> <li>• Auction marketplace (OBR 43, p. 17; 38/39, pp. 21-23)</li> <li>• Automotive info</li> </ul> </li> <li>• Balance and activity-based alerts with low-key plugs for appropriate products</li> </ul>

**MBNA**  
<mbna.com>

**Free Credit Report Monitoring for New MBNA Worldpoints Cardholders**

NEW! **FREE** PROTECTION  
FROM IDENTITY THEFT  
MBNA E-LERT

-- teaser copy on direct mail 9/12/03



**MBNA**, the Wilmington, Delaware-based credit card giant, is bundling daily email credit report monitoring with its *WorldPoints Platinum Plus*

*MasterCard*. The *MBNA e-lert* service, powered by **Intersections Inc.**, checks the cardholder's **Equifax** credit file every day and provides email notification of significant events such as a credit inquiry, new account opened, address change, and so on. Users also receive a monthly email if no changes have been detected.

**Innovations:**

- Offered free-of-charge compared to \$9.99/mo on the MBNA/Intersections co-branded *PrivacyAssist* site <[www.mbnaprivacyassist.com](http://www.mbnaprivacyassist.com)>.
- In a preapproved direct mailing we received Sept. 13, the e-lert service was featured prominently with “teaser copy” on the outer envelope (see above, a 0% interest rate offer was also on the envelope) and a one-page insert dedicated to the new feature.
- The sales rep we talked to on the phone was conversant in the benefits of the service.

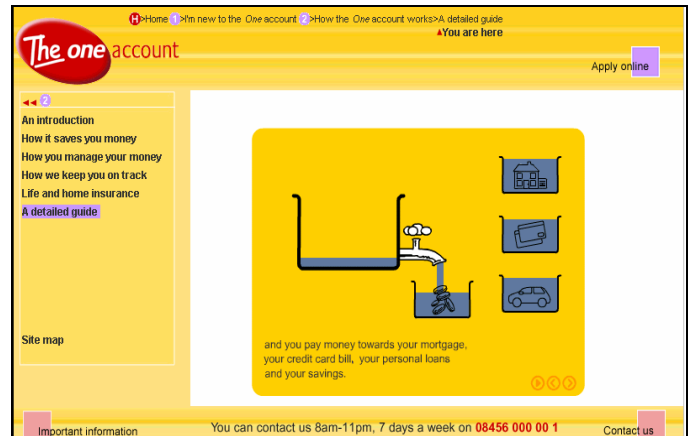
**Caveats:**

- There is no mention of the service on the MBNA website <[www.mbna.com](http://www.mbna.com)>, the rewards site <[www.mbnaworldpoints.com](http://www.mbnaworldpoints.com)>, or the account access site <[www.mbnanetaccess.com](http://www.mbnanetaccess.com)>, so it's probably a test.
- In order to maintain the free credit monitoring service, cardholders must make at least one retail purchase every 90 days.
- The service does not include access to full credit reports; presumably they would be cross-sold, perhaps even paid for with rewards points.

For a full run-down of the excellent opportunities in credit report access and monitoring, see OBR 83/84. ☺

**Royal Bank of Scotland**  
<oneaccount.com>

**Royal's Elegant OneAccount Demo**



*The animated demo does a great job explaining the innovative account (access the demo under “How the OneAccount works,” then choose “Detailed Guide”).*

We've looked at hundreds, no make that thousands, of online demos, and **Royal Bank of Scotland's** *OneAccount* demo is one of the best. The *OneAccount*, which now boasts over 100,000 users, is an award-winning\* mortgage product that combines debit (checking, savings) and credit accounts (mortgage, loans, cards) into a single master account that minimizes interest paid by continually paying down the mortgage balance with excess funds. It was launched in 1998 with **Virgin**, as the *VirginOne* account. You can still get to the product from Virgin's UK finance site, <[www.virginmoney.com](http://www.virginmoney.com)>, but the program is now wholly owned by Royal Bank.

The yellow-and-blue online demo shows a faucet filling different “buckets” from water drawn from the outline of a home. The only sound is that of water being poured and the stamp of credit obligations being paid off. The demo is fast and effective and does a great job reinforcing the elegance of the *OneAccount* solution. ☺



*The account used to be known as VirginOne.*

\*The product was even called a “disruptive technology” by author Clayton Christensen at a Retail Delivery keynote a few years ago.