



UNC
SCHOOL OF LAW

NORTH CAROLINA
BANKING INSTITUTE

Volume 4 | Issue 1

Article 14

2000

Growth of Internet-only Banks: Brick and Mortar Branches Are Feeling the Byte

Christian N. Watson

Follow this and additional works at: <http://scholarship.law.unc.edu/ncbi>



Part of the [Banking and Finance Law Commons](#)

Recommended Citation

Christian N. Watson, *Growth of Internet-only Banks: Brick and Mortar Branches Are Feeling the Byte*, 4 N.C. BANKING INST. 345 (2000).
Available at: <http://scholarship.law.unc.edu/ncbi/vol4/iss1/14>

This Comments is brought to you for free and open access by Carolina Law Scholarship Repository. It has been accepted for inclusion in North Carolina Banking Institute by an authorized administrator of Carolina Law Scholarship Repository. For more information, please contact law_repository@unc.edu.

The Growth of Internet-only Banks: Brick and Mortar Branches are Feeling the "Byte"

I. INTRODUCTION

With the aid of technology, today's consumer can conduct an array of personal business without ever leaving the house.¹ Online shopping, educational classes, and communication via e-mail were only the beginning.² Now, the banking industry has become an addition to the electronic commerce bandwagon.³ In the mid 1990s, most banks were using the Internet⁴ simply for presenting general information about themselves and for communicating with their customers.⁵ There has, however, been an

1. See Cindy Skrzycki, *Online Banking; Follow the Virtual Money*, THE WASHINGTON POST, Oct. 22, 1999, at E01. "Most estimates are that 6 million consumers use Internet banking and that the number will grow to 24 million by 2002. Gomez Anderson is more conservative about the number of current users—5 million, it says. Gomez's estimate counts only online customers who have used the sites within the past thirty days." *Id.* Electronic banking provides several alternatives to traditional banking services and forms of money. *See id.* Electronic fund transfers and payment systems are now commonplace. *See id.*

2. See Steven R. England & David F. Noteware, *Banking on the Internet: Intellectual Property Pitfalls, Opportunities*, BANKING POL'Y REP., Sept. 16, 1996, at 1. Internet usage is expected to grow to 250 million users by the year 2000. *See id.* This is an increase of 40 million since 1996. *See id.*

3. See Michael Hinshaw, *Banks Can No Longer Ignore the Internet*, BANK INVESTMENT SERVICES REPORT, Jan. 11, 1999, available in 1999 WL 6163119. "It is remarkable to us that the banking industry's plans for using the Internet as a marketing, sales and distribution channel are not marked with a greater sense of urgency." *Id.* At the beginning of 1999, there were about 11,000 banks in the United States. Less than 2000 of them had Web sites on the Internet. *See id.* Of the 2000 banks which had Web sites, most used their Web sites as little more than "electronic brochures," rather than as a vehicle for online transactions. *Id.* The banking industry estimates that only thirty-nine of the top 100 banks in the country offer Web-based accounts. *See id.*

4. The terms "Internet", "Net", and "Web" refer to the World Wide Web, and are used interchangeably.

5. See Kimbrelly Kegler, Note, *Electronic Banking: Security, Privacy, and CRA Compliance*, 2 N.C. BANKING INST. 426, 427 n.6 (1998) (quoting Diane Francis, *Banks might be the Casualties in Move to Electronic Money*, FIN. POST, Feb. 11, 1997, at 21,

immense increase in activity over the last year, as banks have decided to take advantage of what the Internet has to offer.⁶

Almost all major banks now use the Internet in some capacity.⁷ The interplay between banks and the Internet has produced three different business structures.⁸ The first type is when a regular brick and mortar bank simply offers its customers web access.⁹ This form, used by institutions such as Wells Fargo and Bank of America, uses the Internet as another distribution channel.¹⁰ This additional channel offers the customers greater convenience, but no financial bonuses.¹¹ Web access is the safest and least adventuresome option for banks, but whether this option is too staid has yet to be determined.

Customer demand for access to their bank accounts via the Web led to the creation of the second type of electronic banking, the true Internet-only bank.¹² Internet-only banks, such as Net.B@nk and Security First Network Bank, forego the physical buildings and infrastructure of brick and mortar banks and primarily operate through the Internet.¹³ The first Internet-only banks had no ties to existing traditional banks, and they benefited from low internal costs and a less restrictive hierarchy.¹⁴

available in 1997 WL 4087183). "One commentator predicted that '18% of U.S. families will do their personal banking on the Internet. But they will represent 30% of bank profits because they will be the most educated, the most wealthy 18%.'" *Id.*

6. See Andrew Osterland, *Nothing But Net*, BUS. WK., Aug. 2, 1999, at 72. "For decades, banks have been losing business to mutual-fund companies and investment banks. Now, anyone with \$15 million in capital, a Web server, and a marketing plan can win approval for a branchless bank on the Net." *Id.*

7. See David Hallerman, *Spinning a New Web of Online Banks*, BANK TECH. NEWS, July 1999, available in 1999 WL 3665418.

8. See Kegler, *supra* note 5, at 426.

9. See *id.*

10. See Ross Snel, *Wells, Citing Customer Preferences, Has No Plan for Web-Only Bank*, AM. BANKER, Aug. 16, 1999, at 13.

11. See *id.* Internet-only banks and Internet banks are able to pass on cost savings to their customers by offering lower loan rates and higher rates on deposits. See *id.*

12. See Robert Barker, *Net Banking is Here, But Has It Arrived?*, BUS. WK., July 26, 1999, at 130. Even experts such as Laurence Greenberg, Tebank's executive vice-president of marketing, have commented that, "Internet banking is still in its infancy." *Id.*; See also Kegler, *supra* note 5, at 427.

13. See Kegler, *supra* note 5, at 430-431. The term "brick and mortar" refers to the traditional community banks—which provide branches with physical buildings and actual personnel to assist the customers.

14. See *id.* at 430-433.

However, some Internet-only banks have found their lack of physical presence to be a problem.¹⁵

Because Internet-only banks offer similar services, they have become a source of competition for brick and mortar banks.¹⁶ In the last year, several bank holding companies have decided to confront the competition directly, and they have opened up their own Internet banks, in addition to their traditional brick and mortars.¹⁷ This new dual system of banks is the third business structure. There have been two approaches to this third model. The first is to capitalize on the existing bank brand, as a way of creating a sense of security and familiarity with the new venture.¹⁸ Citi f/i has followed this tract with notable success.¹⁹ The second method, used by Wingspan, is to distance the Internet venture from the parent company, and sell the e-bank as an innovative, new form of banking.²⁰ Regardless of whether the new e-bank associates itself with its parent company, a similar problem arises: cannibalization of existing business.²¹

This article will focus on the new relationship between traditional brick and mortar banks and their Internet counterparts owned by the same bank holding company. The advantages and disadvantages of moving to the Internet and the

15. See Hallerman, *supra* note 7. "One hindrance for Internet-only banks is how customers must deposit checks and cash through the mail, an unacceptable measure for most people." *Id.* Many Internet-only banks have compensated for the lack of physical presence by offering ATMs to their customers. See *id.*

16. See *Hoping for Net Results*, U.S. BANKER, Aug. 1999, at 16 [hereinafter *Net Results*]. "New competitors seemingly [pop]-up almost daily." *Id.*

17. Established banks such as Citibank and Bank One opened Internet banks in 1999. See *Bank One Spreads Its Wings*, U.S. BANKER, Sept. 1999, at 40 [hereinafter *Bank One*]; See also Adriana Senior, *With Little Fanfare, Citibank Rolls Out Internet-Based, Branchless Retail Bank*, AM. BANKER, Aug. 19, 1999, at 1.

18. See Senior, *supra* note 17.

19. See Gordon Matthews, *Citi Lights Up Banks' Dimmed Market Performance*, AM. BANKER, Jan. 13, 2000, at 1.

20. See Hallerman, *supra* note 7. Natalie Shaheen, president of Netroscope, an Internet market-research and consulting firm, says that it is to the advantage of large banks to "start 'Net-only banks and not disrupt their existing business.'" *Id.* "Branchless banks stay out of their parents' way by being established independently." *Id.* Chris Musto, analyst for Gomez Advisors notes that "a separate charter makes it easier to maintain as a separate organization, plus it gives you flexibility in the capital markets." *Id.*

21. See *Bank One*, *supra* note 17, at 40.

different types of Internet banks are also discussed.²² Several of the newest Internet banks which were opened by bank holding companies in 1999 will be analyzed.²³ Parallel analyses between the American banking industry and European banks as well as the retail industry will be drawn.²⁴ Finally, this article will explore the possible effects that Internet banks will have on the banking industry, and how they will influence the future of branches.²⁵

II. PROS AND CONS OF MOVING TO THE INTERNET

A great shift in the focus of the banking industry has occurred over the past year.²⁶ As late as 1996, banks were debating whether their customers could or would ever make transactions on the Web.²⁷ Banks have continued to lag behind other financial service providers in their utilization of the Internet.²⁸ Of the ten million people who used the Internet in 1998 for financial research, most of them turned to Web sites maintained by nonbank, financial firms.²⁹

By 1998, most large banks had embraced the Internet as an additional distribution channel, but did not consider the Web to be of monumental importance to the industry.³⁰ The Internet was seen as merely another way to service customers, similar to Automated Teller Machines (ATMs).³¹ However, by 1999 Web banking had not only come into its own, but had also created a

22. See *infra* notes 26-47 and accompanying text.

23. See *infra* notes 48-137 and accompanying text.

24. See *infra* notes 138-172 and accompanying text.

25. See *infra* notes 173-202, and accompanying text.

26. See Hallerman, *supra* note 7.

27. See Miriam Leuchter, *Which Way on the Internet?*, U.S. BANKER, September 1999, at 36.

28. See Hinshaw, *supra* note 3, at 1. Hinshaw suggested that "if a bank is determined to keep its increasingly sophisticated customers, the bank must develop an online strategy using the capabilities of the Internet to their fullest." *Id.*

29. See *id.*

30. See Leuchter, *supra* note 27, at 37.

31. See *id.*

"seismic shift" in the industry.³² Internet banking has now become a separate business, apart from its more traditional brick and mortar ancestors.³³ Today, Internet banking is now "a major component of many companies' overarching business strategy, commanding attention at the highest levels of the corporation, and into the boardroom."³⁴

The new Internet banks have obvious advantages, such as no branch maintenance, fewer personnel costs, no paper, and no time and place limitations.³⁵ The Internet banks are able to stay in business because of their amazing cost savings infrastructure (or lack thereof).³⁶ Nearly half the expenses of traditional banks come from maintaining the branch system, but branches only deliver 10% of the transactions.³⁷ The remainder of transactions are conducted via personal computers, telephones, and ATMs.³⁸

Banking via the Internet is markedly cheaper than using other channels.³⁹ Internet transactions cost about one cent each.⁴⁰ This compares to unit costs of \$1.07 for a branch transaction, 73 cents by mail, 54 cents by telephone, and 27 cents at an ATM.⁴¹ Obviously, the savings of Internet transactions are considerable. Branchless banks are able to implement changes quicker than their brick and mortar counterparts.⁴² The low costs of building

32. *Id.*

33. *See id.*

34. *Id.*

35. *See* Bill Orr, *E-banks or E-branches?*, ABA BANKING JOURNAL, July 1999, at 32. "For a few million dollars, an entrepreneur can set up an e-bank and deliver full banking services with a total staff of maybe a dozen specialists working in an office building that could be located anywhere. These savings in fixed capital can make a difference on 50-70 basis points of interest on savings accounts, according to one e-banker." *Id.*

36. *See* Dennis Taylor, *Traditional Banks Get "Wake-Up Call" From Internet Firm*, BUS. J., June 18, 1999, available in LEXIS, News Library, BUSJNL F33..ile.

37. *See id.* D.R. Grimes, CEO of NetBank said, "[i]t's a very inefficient distribution system." *Id.*

38. *See* *US Online Banking Use up by 67%*, RETAIL BANKER INTERNATIONAL, Dec. 15, 1999, at 13, available in 1999 WL 13033688 [hereinafter *US Online Banking*].

39. *See* Robert Keene, *Don't Let Costs Drive Customers Away*, AM. BANKER, May 14, 1999, at 7.

40. *See id.*

41. *See id.*

42. *See* Hallerman, *supra* note 7. "Banks don't want to live with the past baggage of legacy systems," according to Rick Sellers, a partner at Arthur Anderson.

and maintaining a Web-only bank are also attractive to bank holding companies.⁴³

The most obvious drawback for Internet-only banks is the fact that customers must deposit checks and cash through the mail, an unacceptable feature for many people.⁴⁴ To countermand this, several banks are offering use of their sister banks' ATMs to the Internet customers.⁴⁵ For example, Wingspan customers can make deposits and withdraw money from BankOne's ATMs.⁴⁶ This availability of ATMs will also save customers from having to pay a fee for withdrawing money from another bank's ATMs.⁴⁷

III. NEW NAMES ON THE NET

The Internet is no longer the domain of younger and more experimental businesses. The names associated with Internet banks have become increasingly more recognizable and established: Bank One, Citibank, Wells Fargo & Co. and Chase Manhattan Corp.⁴⁸ Banks across the country have created teams to create strategies and operations plans to tackle the new frontier.⁴⁹ While some banks are content with using the Internet as an additional channel, many others believe that Internet-only banks are the wave of the future.⁵⁰

Those bank holding companies that are planning a future

Id. "The banks doing separate Web-only banks will now get ahead of the curve."
Id.

43. *See id.*

44. *See id.*

45. *See id.*

46. *See id.* According to a report by Key Account Research, "Citibank is establishing an electronic beachhead in many parts of the United States through automated teller machines in Blockbuster video stores and Kinko's copy centers." *Id.*

47. *See id.*

48. *See id.*

49. *See id.*

50. *See Snel, supra* note 10, at 13. "Wells Fargo & Co.'s chief officer said the company had no plan to follow Bank One Corp.'s lead in setting up an Internet-only bank." *Id.* Wells' president, Richard M. Kovacevich, believes that his bank's customers have access to all the channels that they want to use. *See id.* Wells Fargo claims to have the largest Internet bank in the world, and adds more than 100,000 Internet customers per month. *See id.* Wells Fargo recently surpassed the million-customer mark for its Internet banking service. *See id.*

on the Internet have cited the "creeping obsolescence of the branch buildings" and the "online success of nonbank competitors" as incentive.⁵¹ Internet-focused financial service providers such as E-Trade and Schwab have truly paved the way to the new frontier, and the banking industry is still playing catch-up.⁵² While the wisdom of online banking is still being debated, many believe that the Internet will restructure the industry.⁵³ And some believe that the time is coming when branches will no longer be the dominant delivery channel.⁵⁴

Currently, bank holding companies are using one of two strategies for utilizing the Internet for profit. The first is the creation of the Internet-only bank, a virtual bank with no presence outside of the Internet.⁵⁵ The second, more conservative, method is the assimilation of the Internet into the more traditional and successful delivery channels already used by the brick and mortar banks.⁵⁶ Wells Fargo, for example, while acknowledging that online banking is "extremely important" and "moving in the direction of becoming more important," has no present

51. Olaf de Senerpont Domis, *Internet: Envisioning Growth, Stressing Security*, AM. BANKER, July 1, 1999, at 1.

52. *See id.*

53. *See* Hinshaw, *supra* note 3. Michael Hinshaw, president of Triad Inc., stated that:

We don't think the Internet (at least in our lifetime) will ever completely replace the traditional bank. But it is a necessary tool to be used by banks to combat the encroachment of nonbank firms on their customers. Research shows that 53% of all Americans would like to consolidate their business into one financial institution. Yet, most Americans don't believe that any one bank can address all their needs. The Internet can't close this perceptual gap. But, a cohesive, online strategy integrated with a clear brand positioning and traditional marketing can certainly narrow it.

Id.

54. *See* Christopher Brown-Humes, *Technological Advance Drives Revolution: Direct Banking*, FINANCIAL TIMES (London), July 7, 1999, at IT 6 [hereinafter Brown-Humes 1].

55. *See* Orr, *supra* note 35, at 32. Orr asserted that "any bank that isn't planning to link its customer's accounts to its Web site is gambling with its own survival." *Id.*

56. *See* Snel, *supra* note 10, at 13. Banks such as Wells Fargo have adopted this safer method. *See id.* Wells Fargo provides online access to account information and allows customers to transfer funds and pay bills online. *See id.*

intention of opening up an Internet-only bank.⁵⁷ It believes that depending on one delivery channel is a faulty strategy. Wells Fargo assumes that its customers prefer to use the Internet in connection with its other four channels: traditional branches, supermarket offices, ATMs, and telephones.⁵⁸ Analysts have noted that banks which concentrate excessively on one delivery channel may run the risk of alienating their customers.⁵⁹ Banks are currently walking a double-edged sword: if they are too conservative they risk losing their customers, but venturing into the Internet has its own share of problems.

With the growth of the Internet banks comes a new threat to the existing brick and mortars—their own cannibalization.⁶⁰ Bank holding companies that open a separately chartered Internet-only bank in addition to their brick and mortar branches are accepting the risk that the new branchless entity may eat into the existing bank's business.⁶¹ This new willingness to undercut their existing business is alternatively seen as both foolhardy and visionary.⁶² Because the Internet trend in banking is so recent and original, there are few indications of how it will affect the traditional banking world.

IV. BANK ONE AND WINGSPAN

With the acquisition of First Chicago in the summer of

57. de Senerpont Domis, *supra* note 51, at 1 (quoting Richard M. Kovacevich, president of Wells Fargo & Co.).

58. *See id.*

59. *See id.* "Some observers applaud Well's strategy, contending that too close a focus on the Internet, and neglecting other modes of service delivery, could upset customers who value choice. 'If you stress one delivery channel too much over another, you risk alienating some customers,' said Joseph K. Morford, an analyst at First Security Van Kasper in San Francisco." *Id.*

60. Random House Webster's College Dictionary (1991). Definitions of cannibalism include "The eating of the flesh of an animal by another animal of its own kind" and "the removal of elements from one thing for use in another." *Id.* "Cannibalization" is defined as "to cut into; cause to become diminished." *Id.* Businesses which create new products which "eat into" existing sales are referred to as cannibals. *See Online Cannibals*, *ECONOMIST*, June 5, 1999, at 72.

61. *See Online Cannibals*, *supra* note 60, at 72.

62. *See id.*

1999, Bank One is now the fifth largest bank in the country.⁶³ It also has become the most aggressive big bank in cyberspace.⁶⁴ In August of 1999, Bank One unveiled WingspanBank.com,⁶⁵ its Internet-only bank, with an extravagant multimedia campaign.⁶⁶ WingspanBank.com was introduced to the public through a barrage of television spots and ads placed on popular Internet portals, such as Yahoo.com.⁶⁷ "In taking this tack, Bank One is apparently heeding the advice of consultants who say the only way for a traditional company to survive in the face of . . . technology like the Internet is to form an entirely new and separate institution, and attack itself."⁶⁸

Though Bank One fully understands the possibility of cannibalization, it remains optimistic. John B. McCoy, Bank One's former Chairman and Chief Executive Officer, was Wingspan's greatest supporter.⁶⁹ McCoy stated that "we do expect it will cannibalize. But we have 4% to 4.5% of the U.S. deposit market, so if I lose 1% of my deposits but get 1% of everybody else's, man have I hit a home run."⁷⁰ Bank One realizes that Wingspan is an expensive venture and has estimated that the cost of opening the e-bank, nearly \$150 million, will reduce the entire bank holding company's earnings by five cents per share.⁷¹

63. See Osterland, *supra* note 6, at 130.

64. See *id.*

65. WingspanBank.com was authorized to start business in June of 1999. First USA Bank, which is owned by the Bank One Corporation holding company, was chartered on May 1, 1983, under charter number 17762. Wingspan is a subsidiary of First USA Bank.

66. See *Bank One*, *supra* note 17, at 40. The new advertising campaign for Wingspan "touts it as a very different kind of bank—and nowhere does it disclose its corporate parentage." *Id.*

67. See Osterland, *supra* note 6, at 130.

68. Andrew Reinbach, *Bank One Creates Parallel Web Bank*, *FUTURE BANKER*, Aug. 1999, at 20.

69. See *id.* John B. McCoy announced his resignation as Bank One's chairman and chief executive officer on December 21, 1999. See Liz Moyer, *McCoy Quits Bank One; Leadership Issue Simmers*, *AM. BANKER*, Dec. 22, 1999, at 1. Bank One experienced several earnings disappointments in 1999, mainly due to the troubles of the First USA credit card division, which was purchased in 1997. See *id.* McCoy served as the CEO of Bank One for fifteen years. See *id.*

70. *Bank One*, *supra* note 17, at 40.

71. See Osterland, *supra* note 6, at 130.

However, Bank One projects that Wingspan will add that same five cents back on to earnings the following year.⁷²

Wingspan follows the lead of the smaller, low-cost Internet banks, which offer lower rates on loans and higher rates on deposits.⁷³ McCoy stated that, "if you're going to be in e-commerce, you have to build a business that destroys the old brick-and-mortar model."⁷⁴ This new form of banking breaks the market into different segments—making it more like retail.⁷⁵ McCoy likened the new change to Proctor & Gamble, which produces several, competing product brands.⁷⁶

Currently, Wingspan has several advantages over its parent corporation. The Internet bank's interest rate on checking is 4.5% versus Bank One's 1%⁷⁷; it offers more than 7000 mutual funds from various companies, versus only forty-eight funds from Bank One⁷⁸; its product offerings come from sixty mortgage companies and fifteen insurance companies⁷⁹; and it has free electronic bill payment versus Bank One's \$4.95 a month fee.⁸⁰ Wingspan also offers its customers several ways to contact the company if they need help regarding their accounts.⁸¹

Not surprisingly, the two companies have some ties:

One of Wingspan's marketing strengths, say some, is its access to Bank One's ATM network, which lends the fledgling a comforting physical presence as well as a way for customers to withdraw cash and conduct business away from their PCs. But that same strength could be a two-edged sword, eventually blurring the distinction between the institutions as, inevitably, Wingspan customers wander into Bank One branches, hoping for

72. *See id.*

73. *See id.*

74. *Id.*

75. *See Bank One, supra* note 17, at 40.

76. *See Osterland, supra* note 6, at 130.

77. *See id.*

78. *See id.*

79. *See id.*

80. *See id.*

81. *See id.* Wingspan customers can e-mail the bank or call a "Customer Care Advisor" twenty-four hours a day, seven days a week. *See Wingspan Banks Website* (visited Feb. 24, 2000) <<http://wingspanbank.com/>>.

some immediate help with a problem or some additional services.⁸²

Bank One has invested much of its time, money, and reputation into launching WingspanBank.com.⁸³ Wingspan is the most aggressive new bank on the Web, and many have high hopes for the new venture: "[t]he whole thing with Bank One comes back to the strategy of category killer. Some believe that an organization like Amazon.com will come along in financial services, and Bank One could be the one."⁸⁴

Wingspan was the first Internet bank which had roots in an established financial institution. It offers its customers the best of both worlds: the flexibility of its own structure and the experience of a savvy, reputable business. One main advantage for the new e-banks, is their ability to remain flexible and adjust their business to the evolving market.⁸⁵ One banker hailed the venture as "a great thing for the industry,"⁸⁶ and other bank holding companies, such as Citibank, have followed in Wingspan's wake.⁸⁷

As to be expected, there is skepticism about the long-term success of Wingspan, or any Internet-only banks. Critics cite the lack of physical presence as the largest drawback to customers.⁸⁸ Some critics believe that Wingspan's influence is limited by the fact that many consumers seek a wider array of services than it

82. Reinbach, *supra* note 67, at 20.

83. See Osterland, *supra* note 6, at 72; See also Reinbach, *supra* note 67, at 20.

84. Hallerman, *supra* note 7 (quoting Rick Sellers, a partner in the financial services practice at Chicago-based Arthur Anderson). Sellers analogized Bank One to Amazon.com, the Internet-only bookstore which was a huge and unexpected success. See *id.* The powerful presence of Amazon.com forced traditional booksellers such as Barnes and Noble to offer their own Internet services. See *id.*

85. See Chris Costanzo & Carol Power, *Reporter's Notebook: Excitement, and Anxiety, About Future on the Net*, AM. BANKER, Dec. 17, 1999, at 13.

86. Chris Costanzo, *Bank One's Wingspan Wins Applause, But Branchless Strategy Stirs Doubts Too*, AM. BANKER, Oct. 13, 1999, at 1 (quoting Joseph Sponholz, Vice Chairman of Chase Manhattan Corp., who also said, "[i]t has really energized people"). *Id.*

87. See Senior, *supra* note 17.

88. See Costanzo, *supra* note 86. The Internet-only bank "will definitely appeal to some," Joseph Sponholz said, "but I don't believe that it's the biggest market segment out there." *Id.*

provides.⁸⁹ One commentator feels that Wingspan's strength is mainly as a "credit card acquisition tool," and not its other banking services.⁹⁰

Regardless of what the critics say, the customers are definitely warming to Wingspan.⁹¹ In November of 1999, Bank One's chairman announced that Wingspan had attracted 50,000 customers in only four months.⁹² However, Wingspan's success or failure may still be tied to its sister bank, Bank One, which experienced several problems in 1999.⁹³

V. CITIBANK AND CITI F/I

Although Wingspan was the first and most advertised of the Internet-only banks introduced in 1999, it was not the only one. In August of 1999, Citibank unveiled its own Internet offering.⁹⁴ Citibank's entrance into the world of web banking is not surprising, since Citibank is the only American bank which is

89. *See id.* Many customers seek a broad array of Web offerings, such as travel services, electronic mail, and chat rooms. Wingspan does offer travel services to its customers. *Id.*

90. *Id.* Wingspan provides First USA credit cards. *See id.* First USA's former Vice Chairman and Chief Financial Officer, Jack Antonini believes that Wingspan does not have to sell many products to be successful. *See id.* He sees Wingspan as "primarily a sales vehicle for First USA's lucrative credit card business. And that 'works' for First USA even if it 'doesn't get a lot of banking customers.'" *Id.* Mr. Antonini claims that "two-thirds to three-fourths of Wingspan is a credit card acquisition tool." *Id.* He also says the rest "is an online experiment." *Id.*

91. *See* Carol Power, *McCoy Says Bank One Won't Clip Wingspan*, AM. BANKER, Nov. 8, 1999, at 15 [hereinafter Power 1].

92. *See id.* Chairman John McCoy claimed that most of these customers were new to Bank One. *See id.*

93. *See id.* At the end of October of 1999, a report was issued by Forrester Research Inc. of Cambridge, Mass. *See id.* The report predicted that Bank One's "financial difficulties and internal politics" would force the bank to shut down Wingspan. *Id.* A hopeful McCoy claimed that Bank One would earn more than four billion in 1999, and could afford to keep the expensive venture open. *See id.* However, Bank One failed to meet its third and fourth quarter forecasts in 1999 and four of its five highest-paid executives departed during 1999. *See* Moyer, *supra* note 69. Bank One also performed poorly on the stock market in 1999. *See id.*

94. *See* Senior, *supra* note 17. Citibank decided to forgo the multi-million dollar, multimedia campaign such as used for Wingspan. *See id.* The bank's "soft" emergence did not include any public announcement or advertising. *See id.* Citi f/i's low-key coming out may be indicative of Citibank's caution about operating a virtual bank. *See id.*

considered a leader in the Internet banking world.⁹⁵ Citibank's holding company, Citigroup Inc., has been called a model of banking in the "new economy,"⁹⁶ and it had a 68% gain in market value in 1999.⁹⁷

Citibank's new creation is called Citi f/i,⁹⁸ which stands for "financial interactive." A retail bank and brokerage, it offers deposit accounts, free bill payment, financial planning services, and brokerage services through Citicorp Investment Services.⁹⁹ The new branchless bank is accessible only through telephones, ATMs, and the Internet.¹⁰⁰ Citibank plans to offer an expanded version in the future; expected improvements include loan and insurance services, and non-financial options such as travel services.¹⁰¹

Citi f/i does not include access to Citibank branches as part of its package, simply because it is designed for customers who prefer to use the Internet and are outside the banks' geographic areas.¹⁰² This branchless strategy may prove limiting for Citi f/i customers, but it is good for the bank, which could always later open its Citibank branches to f/i's customers.¹⁰³ Adjusting the no-branch policy would be easy, and Citi f/i customers would be brought "over the wall" as the physical

95. See Brown-Humes 1, *supra* note 54. This is according to a recent IBM study. See *id.* The other three leading Internet banks were Nordic: Swedbank, MeritaNordBanken, and SEB. See *id.*

96. Matthews, *supra* note 19.

97. See *id.* at 24.

98. Citi f/i is a subsidiary of Citibank N.A., which was chartered on June 16, 1812. Citibank's charter number is 1461.

99. See Senior, *supra* note 17. Citi f/i's checking account earns no interest. See *id.* This is in contrast to the earlier Internet-only banks who offered interest bearing checking accounts with rates up to 6%. See *id.* However, idle funds can be added to other deposit and brokerage accounts. See *id.* If they are linked to a money market account, they can earn 5% in interest. See *id.*

100. See *id.*

101. See *id.*

102. See *id.*

103. See *id.* at 2. "Branchless strategies have proven limiting to some Internet-only banks. Bank of Montreal, for example, introduced its mbanx offering with only telephone and ATM access, later adding the Internet. As customers began clamoring for a complementary physical presence, mbanx began allowing the use of Bank of Montreal branches." *Id.*

branches of Citibank become another channel for Citi f/i customers.¹⁰⁴ Citibank is prepared to open its branches to Citi f/i customers if and when it becomes obvious that all the customers' needs are not being met via the Internet.¹⁰⁵

Citi f/i is expected to join Bank One as the "standard-setters in the Internet banking race."¹⁰⁶ Both banks are offering superb customer service and emphasizing personalized financial planning.¹⁰⁷ Citi f/i is also offering free financial planning advice over the phone at any time to its customers as a way to enhance its website's financial planning resources.¹⁰⁸

VI. SMALLER, START-UP BANKS—BANKDIRECT

Larger, established banks such as Bank One and Citibank may be the more notable additions to the world of the Internet, but they are not the only newcomers. Texas Capital Bank, a start-up institution, has also begun an Internet operation, called BankDirect.¹⁰⁹ BankDirect is currently partnered with EDS Corp., a successful Texas-based technology and consultant vendor.¹¹⁰ BankDirect rejects the term "Internet-only bank" and describes itself as a "no branch model."¹¹¹ Texas Capital Bank CEO Jody Grant says the difference lies in the fact that BankDirect offers direct lending capabilities, when most Internet banks do not.¹¹²

BankDirect has plans to expand, but it is initially focusing

104. *Id.*

105. *See id.*

106. *Id.*

107. *See id.*

108. *See id.*

109. *See Net Results*, supra note 16, at 16. This new Internet-only bank "went live" in May of 1999, but heavy advertising began in mid-June. *Id.* "Went live" means that the bank's website opened and became available to customers over the Internet.

110. *See id.*

111. John Adams, *Texas Capital and EDS Partner to Create BankDirect, a Web Spin-off*, FUTURE BANKER, Nov. 1999, at 48.

112. *See id.* Grant asserts that most Internet banks buy assets in the secondary market, such as mortgage-backed securities and loan participation from other banks. *See id.*

on the Austin, Texas market.¹¹³ This is because the area has a high concentration of students and professionals who are technologically advanced and frequently use the Internet.¹¹⁴ BankDirect has a different targeted market than most Internet-only banks. They seek not just the Net-based customer, but also the local business and individuals in the Texas market.¹¹⁵

BankDirect needs to attract customers from traditional banks, and notes that people who are already trading online are the perfect candidates because they feel comfortable conducting financial transactions over the Internet.¹¹⁶ The bank's President, Rose Hultgren, believes that her institution has an advantage over larger banks such as Bank One because those more established institutions "are faced with the challenge of cannibalizing their existing bank—the [competition for the best rates in] . . . cyberspace will make it difficult to gather new online customers."¹¹⁷ BankDirect also sees its status as a start-up bank as an advantage.¹¹⁸ Jody Grant believes that when larger banks try to convert their customers to online banking, it causes problems for their infrastructure.¹¹⁹ Grant claims that BankDirect has a "clean sheet of paper" and plans to use the Net as its primary delivery system, rather than investing in brick and mortar facilities.¹²⁰

BankDirect may also have an advantage over Internet-only banks because it is considered another division of Texas Capital

113. See Carol Power, *Texas Web Bank Launches \$1M Ad Campaign*, AM. BANKER, Aug. 3, 1999, at 12 [hereinafter Power 2]. Austin, Texas is a likely focal point for several reasons: it is the capital of the state, a large metropolitan city, and the University of Texas is located there, providing a high density of academics and students. Educational towns and colleges make good test markets because the populations tends to be technologically advanced or "highly wired." *Id.*

114. *See id.*

115. *See Adams, supra* note 111, at 48.

116. *See Net Results, supra* note 16, at 16.

117. *Id.* Hultgren also noted that while the larger banks have had "some success in migrating customers and getting them to use online services . . . they are encumbered with the conversion of legacy systems....We're much nimbler because we don't have that infrastructure." *Id.*

118. *See Adams, supra* note 111, at 48.

119. *See id.*

120. *Id.*

Bank.¹²¹ BankDirect will use the deposits it collects from money market, checking, and saving accounts to fund higher-yield commercial loans through its traditional parent.¹²² Thus, it will not have to compete with other banks for the business of retail customers.

Texas Capital Bancshares invested over one million dollars in BankDirect's initial marketing campaign.¹²³ Most of the money was spent on online banner advertising, which would only be seen by those already using the Internet.¹²⁴ The advertising campaign seems to be initially successful; BankDirect received over 1000 applications in the first two months that it was open.¹²⁵

VII. HOW THEY'RE MEASURING UP: THE BANKING SCORECARD

The banking industry has certainly arrived on the Net, but it has arrived in several different forms, reflecting the various opinions of how financial institutions should approach and utilize the new medium. Aggressive, forward-thinking companies like Bank One and Citibank jumped into cyberspace with both feet, while more conservative companies, such as Wells Fargo, chose to keep Internet influence at a minimum. Who made the better decision?

Internet banking is still in its infancy, but that has not kept experts from analyzing its progress so far.¹²⁶ The Gomez Adviser's Fall Online Banking Scorecard, which was released October 19, 1999, provided a few surprising results, which reflected

121. See *Net Results*, *supra* note 16, at 16.

122. See *id.*

123. See *Power 2*, *supra* note 113.

124. See *id.* The ad campaign also included a full-page ad in *The Wall Street Journal*, which proclaimed "BankDirect. Easy. Money." *Id.* Another version read "For years banks have been getting bigger. We've just made one that's better." *Id.*

125. See *id.*

126. See *Gomez Advisors Releases Fall Online Banking Scorecard; Established Financial Service Companies are Attacking Internet Banking Upstarts by Launching Their Own Internet-Only Banks*, PR NEWSWIRE, Oct. 19, 1999, available in LEXIS, Bankng Library, PRNEWS File [hereinafter *Gomez Advisors*].

the growing strength of Internet banks.¹²⁷ The Scorecard covers both the Internet-only banks and the Internet services provided by brick and mortar banks.¹²⁸

The required criteria to make the list included diversity of products, level of customer services, and overall efficiency of services.¹²⁹ Internet banks with no physical branches dominated the study, with Security First Network Bank, Net.B@nk, First Internet Bank and WingspanBank.com taking four of the top five positions.¹³⁰ Security First Network Bank, an Internet-only bank, took the top spot.¹³¹ Chris Musto, Director of Financial Services for Gomez, noted that "Internet banks are gaining momentum by moving beyond a couple of products that are aggressively priced but without branch relations. Now they're offering more services, and including off-line customer service."¹³²

The surprising second place winner was Wells Fargo, which simply uses the Internet as another channel to serve its customers.¹³³ Wells Fargo has offered online banking services to its customers for years, and the strength of its customer service has helped add 100,000 new accounts since August of 1999.¹³⁴ Wells Fargo is unique because it barely advertises the fact that it offers online banking, and the company does not use aggressive pricing.¹³⁵ Wells Fargo's conservative method earned it a rank far ahead of Internet-only Citi f/i, which came in eighth on Gomez' scorecard.¹³⁶

127. *See id.*

128. *See id.*

129. *See id.*

130. *See* Howard Stock, *Internet Banks Challenge Bricks and Mortar*, WEB FIN., Nov. 1, 1999, available in LEXIS, Bankng Library, PRNEWS File.

131. *See id.* Security First Network Bank provided a "tightly integrated suite of banking products through an easy-to-use interface backed by aggressive pricing and 24/7 customer service." *Id.*

132. *Id.*

133. *See id.*

134. *See id.* Musto stated that, "Wells Fargo has been very successful despite the fact that its pricing is not aggressive. It has brought branch-type activities like 24/7 customer services making it a useful, solid and well-backed service." *Id.*

135. *See id.*

136. *See id.* BankOne.com came in seventh for its Internet banking services. *See id.*

The results of the Banking Scorecard show that while Internet-only banks may be the wave of the future, there is still a place of prominence for traditional banks who know how to use the Internet to their advantage.¹³⁷ Wells Fargo strikes the perfect balance of retaining its standard structure while acknowledging the importance of innovation.

VIII. PARALLEL ANALYSES

Those concerned with the future of the American banking industry on the Internet must look elsewhere for clues about its possible success, failure, or general impact. The European banking institutions embraced the Internet years before American banks realized the potential of the Web. As a result of their earlier start, Europeans banks are now seeing a more definite and noticeable effect on traditional banks. And while the European banking community is different than the American one, it is still a clear indicator of what the American banking industry might become.

Another indicator of the Web's impact on the U.S. banking world is the experience of the American retail industry. The retail industry has been on the Web for several years and has found it to be both a very profitable place and a source of competition for traditional stores.

IX. EUROPEAN BANKING

While the popularity of Internet banking is steadily growing in America, the Web has had the greatest impact on the banking industry in the United Kingdom. Some of London's most reputable banks are closing branches and citing their customers' growing preference for electronic channels as a reason.¹³⁸ An industry expert predicted that one-third of UK branches will close

137. *See id.*

138. *See Carol Power, British Banks Outdo U.S. In Web Effect on Branches, AM. BANKER, Nov. 30, 1999, at 20 [hereinafter Power 3].*

by 2005.¹³⁹

One established British bank, London-based Barclays PLC, announced in November of 1999, that it planned to close 200 of its 1900 branches.¹⁴⁰ In 1994, 56% of Barclay's customers used branches for routine transactions; that figure was 36% by 1999.¹⁴¹ Barclays says that its customers prefer using alternative channels, and they are trying to accommodate them.¹⁴² To do this, the bank is introducing nearly 100 new ATMs per month, adding to their existing 3200 machines.¹⁴³ The Barclays Online service is adding 7000 new customers a week, and the telephone banking service, the Barclay Call, has grown 20% since 1998.¹⁴⁴

Barclays is not the only major British bank closing branches.¹⁴⁵ The mortgage bank, Northern Rock PLC, is planning to close nearly a third of its 105 branches. Tony Armstrong, the director of corporate affairs at Northern Rock, says "the branches are closing because they are not producing economic benefits. We prefer to transfer our costs and resources to a number of other services."¹⁴⁶ These other services include automatic mortgage loan call centers and a more expanded Web site.¹⁴⁷

The eventual fate of the branch is unknown. In London, there are two schools of thought. The first says that the branches are obsolete and that all transactions will be conducted via the more convenient, cheaper Internet.¹⁴⁸ The second says that while many transactions will occur through other channels, most people still prefer to have a real person help them with complex is-

139. See Brown-Humes 1, *supra* note 54.

140. See Power 3, *supra* note 138.

141. See *id.* In fact, 38% use the branch once a month or less. See *id.*

142. See *id.*

143. See *id.*

144. See *id.* The Barclay telephone banking service has a million customers. See *id.* The Online service has signed up 500,000 customers since June of 1998. See *id.* Interestingly, the United States is still ahead of Europe in online banking, because personal computers are more affordable and the local calls are free. See Brown-Humes 1, *supra* note 54.

145. See Power 3, *supra* note 138.

146. *Id.*

147. See *id.*

148. See Clare Gascoigne, *Before Your Eyes—A Branch of Evolution*, FINANCIAL TIMES (London), Nov. 20/21, 1999, at FT Money 6.

sues.¹⁴⁹ Research shows that while nine out of ten people still prefer going to a branch for complicated investment products, only one in fifty would prefer to use the Internet.¹⁵⁰

Although some banks are cutting the number of branches, they are still committed to updating the ones remaining.¹⁵¹ Analysts predict that bank branches will become more "touchy-feely," and that in the future, one person may deal with all of a customer's financial affairs.¹⁵² In short, customer service will become the focus for United Kingdom bank branches, as the popularity of electronic channels causes the banking industry to rethink its approach.¹⁵³

X. AMERICAN RETAIL

The American retail industry is a good indicator of potential effects of the cannibalism trend in banking. Retail Internet purchases have swelled to hundreds of billions of dollars.¹⁵⁴ Online shopping now makes up nearly 20% of all retail sales, and those on-line purchases have reached \$500 billion.¹⁵⁵ "The risk of not being there [on the Net] is greater than the risk of being there and not doing it right," says Nancy Stahl, Sony Online's Vice President of Business Development.¹⁵⁶

Internet retailing is definitely cutting into store traffic. Jupiter Communications LLC, a media research firm, asserts that most of the coming years' new growth will be at the expense of

149. *See id.*

150. *See id.* The research was conducted by Bristol and West. *See id.*

151. *See id.*

152. *Id.*

153. *See id.*

154. *See* Dick Silverman, *Brick and Mortar Retailers Shouldn't be Dot Calm; Now's the Time to Get Clicking on What Could Amount to \$500 Billion in Internet Business*, DAILY NEWS RECORD, Aug. 30, 1999, available in 1999 WL 12260152. In fact, "preliminary revenue estimates rang[e] from \$5 billion to more than \$10 billion," which is double or possibly triple the amount from 1998. Mo Krochmal, *2000 Retail Sales Will Slow While Online Grows*, TECHWEB NEWS, Jan. 17, 2000, available online at <<http://www.techweb.com/wire/story/TWB20000117S0007>>.

155. *See* Silverman, *supra* note 154..

156. *Id.*

traditional retail.¹⁵⁷ According to a market research firm, "39% of people with Internet access said they go to stores and malls less now that they shop via the Web."¹⁵⁸ The firm's new study said that only 6% of online commerce sales in 1999 will be incremental.¹⁵⁹ Incremental sales are "sales that would not have occurred on their own."¹⁶⁰

That 6% makes up only \$720 million of the expected \$11.9 billion in on-line sales.¹⁶¹ The study conducted by Jupiter Communications LLC, projected that any anticipated growth in e-commerce sales would be at the expense of revenues that would have been made in traditional retail.¹⁶²

Concern with the cannibalization of existing sales kept many businesses off of the Web. For example, Barnes & Noble refused to go online years ago because it did not want to cannibalize its store business.¹⁶³ But, after the huge success of Amazon.com¹⁶⁴ and Borders.com,¹⁶⁵ Barnes & Noble belatedly decided to start its own Internet store.¹⁶⁶ As one retailer said, "If somebody's going to bite into your business, make sure that it's you!"¹⁶⁷

E-commerce has been considered a viable threat to existing traditional merchants. This is because Internet sales come mainly from those that would have gone into traditional channels.¹⁶⁸ Some merchants have theorized that the "value of their Web investment is negated because of the cannibalization effect."¹⁶⁹

157. See Bob Woods, *E-com Market Will Cannibalize Retail, Says Study; Jupiter Communications Report; Industry Trend or Event*, COMPUTING CANADA, Aug. 13, 1999, at 11.

158. *Id.*

159. *See id.*

160. *Id.*

161. *See id.*

162. *See id.*

163. *See Silverman, supra* note 154.

164. (visited Feb. 25, 2000) <<http://www.amazon.com/>>.

165. (visited Feb. 25, 2000) <<http://www.borders.com/>>.

166. *See Silverman, supra* note 154.

167. *Id.* (quoting Ben Narasin, founder and president of Fashionmall.com.).

168. *See Woods, supra* note 157, at 11.

169. *Id.* (quoting Ken Casser, an analyst with Jupiter's digital commerce strategies practice).

However, most merchants have also accepted the fact that cannibalized sales are preferable to lost sales.¹⁷⁰

If anything is true, it is that Web shopping is here to stay. The holiday Internet shopping during 1999 reached over \$5 billion.¹⁷¹ Analysts predict that since most customers had positive experiences during the Holiday season, they may shift more of their non-gift spending money to the Web as well.¹⁷² But, while the popularity of the Internet may cause a decline in retail sales, no one fears that it hails the end of traditional stores.

XI. ARE U.S. BRANCHES AT RISK?

The statistics show that bank customers are becoming increasingly sophisticated and are utilizing the efficiency of the Net. Currently, more than half of American households own a personal computer (PC) and more than a third have access to the Internet.¹⁷³ In 1999, 7% of PC owners took advantage of online banking.¹⁷⁴ This represents a 67% increase from 1998.¹⁷⁵

Although 7% is a small number, experts say that it is the beginning of a growth trend. One expert commented, "We believe that 20% of households will use online banking services by 2002, a three-fold increase from today's level."¹⁷⁶ The average number of online transactions per household is 12.4 per month.¹⁷⁷ This figure is an 80% increase from 1997 and is compared to the average of seven branch transactions per month for each household.¹⁷⁸

170. *See id.*

171. *See PC Data Online: Consider Internet Spending Tops \$5 Billion During Holiday Season; Post-Holiday Spending Returns to \$540 Million Level*, PR NEWSWIRE, Jan. 13, 2000, available in LEXIS, News Library, PRNEWS File. These figures refer to a two-month period of time. *See id.*

172. *See id.* Cameron Meierhoefer, an Internet analyst for PC Data Online made these predictions. *See id.*

173. *See US Online Banking*, *supra* note 38, at 13.

174. *See id.*

175. *See id.*

176. *Id.* (quoting Mark Sievwright, president of PSI Global).

177. *See id.*

178. *See id.*

Industry experts have predicted that branch transactions in the United States will decline from 37% in 1998 to 29% in 2003.¹⁷⁹ However, this decline is not expected to result in branch closings in America. In fact, the number of branches has risen steadily from 54,815, in 1994, to 61,902, in 1998.¹⁸⁰

Unlike the trend in European banks, the "substitution of electronic for physical channels is a goal that remains elusive for U.S. banks."¹⁸¹ Currently, the traditional branches and the Internet are aimed at and are attractive to very different markets in the United States.¹⁸² Although some people prefer to visit a branch only when necessary, others prefer to bank in person.¹⁸³ The percentages of these groups are expected to change over time, but experts say that it will be "five to ten years [before we] see significant shifts."¹⁸⁴ Research shows that Internet bankers tend to use ATMs, debit, and credit cards and prefer to not use branches.¹⁸⁵ The same study showed that customers who preferred the branches did so for social reasons.¹⁸⁶

Virtual banks will probably be very successful in transaction-based banking. Customers will check their balances on line, transfer funds, and pay bills via the Web. Analysts predict that customers will still turn to the branches for more complex banking products, such as business loans and mortgages.¹⁸⁷ But, even these areas are not immune from Web competition, as companies such as Lendingtree.com are growing in popularity.¹⁸⁸

179. See Power 3, *supra* note 138. These predictions were made by Tower Group. See *id.*

180. See *id.*

181. *Id.*

182. See *id.*

183. See *id.* "FleetBoston's research has shown that Internet banking customers generally do not go into branches and will tend to use ATM, debit, or credit cards. Branch-oriented people generally go to branches for social reasons." *Id.*

184. *Id.* (quoting Robert Hedges, managing director of retail at FleetBoston Financial Corp.).

185. See *id.* Research done by FleetBoston Financial Corp. See *id.*

186. See *id.*

187. See Christopher Brown-Humes, *Bargain Appeal of a Virtual Teller*, FINANCIAL TIMES (London), July 3/4, 1999, at 2 [hereinafter Brown-Humes 2].

188. (visited Feb. 24, 2000) <<http://www.lendingtree.com/>>. Lendingtree helps the consumer find the best rates for mortgages, home equity loans, automo-

XII. CONCLUSION

Experts differ over the possible lasting impact that the Internet will have on the banking industry. Some Web enthusiasts are forecasting the steady decline or even the demise of the traditional branch.¹⁸⁹ On the other end of the spectrum, some analysts are predicting that Internet banking will have a limited role and will have little impact on the established structure.¹⁹⁰ However, the same sentiments and reservations were expressed when E-Trade, Ameritrade, and other Internet brokerages came onto the market.¹⁹¹ The overwhelming success of these Internet businesses clearly demonstrated that the nay-sayers were in the wrong.

By the end of 1999, it seemed clear that the face of the banking industry had changed. Currently, 68% of the top fifty American banks provide some version of online banking services in an effort to compete with increasingly popular Internet-only banks.¹⁹² The number of retail banking transactions in the United States rose to an unprecedented \$32 billion in 1999.¹⁹³ Half of these were conducted through online transactions, ATMs, and telephones.¹⁹⁴ This means that half of all banking transactions are done outside the branches.

Although the growth in Internet transactions has certainly been phenomenal, it does not yet hail the demise of the branch. Industry experts recall that traditional bank branches were not put out of business by ATMs and do not expect that they will be replaced by online banking.¹⁹⁵ American banking customers are

bile and personal loans. *See id.* By using this company, a person can receive up to four loan/rate offers from different financial institutions and choose the one that works for him or her. *See id.* Lendingtree's tag line says that they are "where the lenders compete for *your* business." *Id.*

189. *See* Hinshaw, *supra* note 3, at 1; *See also* Gascoigne, *supra* note 148; *See also* Power 3, *supra* note 138.

190. *See* *Net Results*, *supra* note 16, at 16.

191. *See id.*

192. *See* Stock, *supra* note 130.

193. *See* *US Online Banking*, *supra* note 38, at 13.

194. *See id.*

195. *See* Brown-Humes 2, *supra* note 187.

a group with varying financial needs and styles. Some bank customers would be happy to never set foot in a branch, while others will always prefer the personal service that the Internet cannot provide.

The Internet offers bank customers convenience, and the branches offer them personal contact. The banking industry recognizes these dual aspects and is providing both. In fact, more community banks are beginning to offer interactive Internet products. And, the fact that traditional banks can take advantage of the Net and still maintain physical branches may eventually tip the scales in their favor.¹⁹⁶ Internet-only banks may find it hard to find capital to compete with both the physical and virtual banks.

The past few years have made it apparent that traditional banks must learn to take the Internet phenomenon seriously. Whatever else may be uncertain, "for major banks, Internet banking is now the rule, not the exception, but Internet-only banks are moving aggressively to create a strong value proposition."¹⁹⁷ Internet banking is widely popular—five million retail customers banked on the Web in September, 1999 alone.¹⁹⁸ But, only a fraction of those customers, about 4%, banked with Internet-only banks.¹⁹⁹ Presently, traditional brick and mortar banks which offer their customers Internet access still account for most of the Internet usage by banking customers.²⁰⁰

For the moment, the Internet is an additional channel for

196. *See id.*

197. *Gomez Advisors, supra* note 126. Three of the country's largest financial institutions—American Express, Citibank, and Bank One—launched Internet-only banks in 1999. *See id.* Gomez also cautioned that many of the newly launched Internet-only banks are ill-equipped for success. *See id.* They are either launched by "traditional banks that lack the marketing, technology or organizational assets necessary to compete in a marketplace that is national in scope," or they are "launched by start-ups that face huge regulatory, financial and customer confidence hurdles." *Id.* (quoting Chris Musto, Director of Financial Services at Gomez).

198. *See id.*

199. *See id.*

200. *See id.* Chris Musto said that "while we see Internet-only banks starting to gain traction with consumers, it is still much easier for a branch bank to get its existing customers to try Internet banking than it is for an Internet-only bank to steal those customers away." *Id.*

banks, and not a replacement for the brick and mortar branches.²⁰¹ However, the banking industry cannot afford to become complacent and underestimate the possibilities of the Internet. There are lessons to be learned from other advances in technology in the past century. As D.R. Grimes, CEO of NetB@nk pointed out, "remember, the guys that were running the railroads said nobody would fly on airplanes. They were in the transportation business but they didn't know it; they thought they were in the train business."²⁰² With innovation, you can never be sure that things will remain as they always have been.

CHRISTIAN N. WATSON

201. See Power 3, *supra* note 138. Daniel Latimore, director of e-strategy at Mainspring, a Cambridge consulting firm does not see "any near-term correlation between the expanded Internet capability and fewer branches." *Id.*

202. See Taylor, *supra* note 36, at 1.