Comments on Furst, Lang, and Nolle

KATHERINE WYATT
Division of Market Regulation, New York State Banking Department

1. Introduction

I am pleased to have this opportunity to discuss this extensive review of Internet banking at the end of the third-quarter of 1999. Furst, Lang, and Nolle’s paper provides a context for the study of Internet banking operations in the present and a benchmark for future study. In my comments, I hope to enlarge the discussion somewhat by reporting the results of a survey of Internet sites of banks headquartered in New York State during the third-quarter of 2000. I found that, as a group, New York banks with transactional web sites shared many of the characteristics that Furst, Lang, and Nolle found in their study of national Internet banks; however, when I considered non-transactional sites as well as transactional sites, and divided the banks in the survey into savings and commercial banks, a somewhat different picture emerged. In our survey, web sites that offered balance inquiry, funds transfer, and bill payment were said to be transactional; all other sites were non-transactional.

2. Internet and non-Internet Banks

Furst, Lang, and Nolle present data on the presence—and growth—of transactional Internet bank sites among all national banks. They found that all the national banks with assets over $10 billion offered transactional web sites to their customers, and these banks are much more likely to make a “premium” collection of internet banking services available than are smaller banks. The authors use the term “Internet bank” to mean a bank offering its customers the ability to transact business with the bank over the Internet; they group banks with non-transactional sites with banks with no web sites as “non-Internet banks.” Internet transactions can include balance inquiry, credit application, electronic bill presentment, insurance, and brokerage.

In the third-quarter of 2000, we reviewed web site activity of all the banks headquartered in New York State that have insured deposits and filed Call Reports as of March 31, 2000. Of the 234 banks we reviewed, 85 (or 36%) had no web site, 81 (or 35%)

*Katherine Wyatt is a Supervising Risk Management Specialist in the Division of Market Regulation of the New York State Banking Department. This paper represents opinions of the author, and does not necessarily reflect the opinions of the New York State Banking Department.
1 Banks surveyed included state-chartered and national institutions.
had non-transactional sites, and 68 (29%) had transactional sites. Since a sizeable portion of these banks chose non-transactional web sites, we included these non-transactional sites in our study. We also considered asset size and type of institution (savings or commercial) when reviewing web site choices.

First, we looked at New York State banks in terms of four asset size categories as of March 31, 2000: less than $100 million in assets, between $100 million and $1 billion in assets, between $1 and $10 billion in assets, and assets greater than $10 billion. Our findings were similar to those of Furst, Lang, and Nolle when we looked at the number of institutions in each asset size category that had transactional sites: 85% of the banks with assets over $10 billion had transactional sites, as did 53% of those with assets between $1 and $10 billion, 26% of the institutions with assets between $100 million and $1 billion, and only 10% of banks with assets under $100 million. However, more than a third of the institutions with assets under $1 billion had non-transactional sites: 42% of institutions in the $100 million to $1 billion category and 30% of those with assets under $100 million. All of the institutions with assets over $10 billion had web sites by the end of the third-quarter 2000, although two of them were non-transactional. In addition, 22% of large institutions (those with assets between $1 and $10 billion) had set up non-transactional sites.

Web site choices did appear to be different for savings institutions and commercial banks, regardless of asset size. Savings institutions of all sizes were more likely to pick a non-transactional site than no web site, and savings institutions in each asset size category were more likely than commercial banks of the same size to choose a non-transactional web site. Although small institutions were most likely to have chosen to have no web site, small commercial banks were more likely to have no web site than were small savings banks. Seventy-one percent of commercial banks with less than $100 million in assets had no web sites, while only 41% of savings institutions in this category had no web site. In addition, both savings institutions and commercial banks with assets under $1 billion were more likely to have a non-transactional site than a transactional site. Savings institutions in New York State seem to find more value in non-transactional sites than do commercial banks; however, since commercial banks outnumber savings institutions in every asset size category—and by more than three times in the largest asset size—the web site choices of commercial banks dominate the findings for all banks.

Furst, Lang, and Nolle report that Internet banks accounted for almost 90% of the assets in the national banking system and almost 85% of all deposit accounts under $100,000 in the national banking system. We found that banks with transactional sites have 72%—rather than 85%—of the deposit accounts under $100,000 held by banks in our study. This suggests that a smaller percentage of consumers in New York State had access to transactional Internet banking than was found nationally. Savings banks held 25.7% of these small deposit accounts, while commercial banks held 74.3%, and the share of small deposit accounts held by transactional savings and commercial banks reflected the fact that many institutions chose non-transactional sites. In fact, only 51.8% of the deposit accounts

---

2 According to the ‘‘Summary Results of OCC’s Internet Banking Questionnaire, July 2000,’’ 30% of national banks had non-transactional web sites.