



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2000-51

FOR IMMEDIATE RELEASE
July 6, 2000

Contact: Dean DeBuck
(202) 874-5770

New OCC Study Finds Banks Offering Internet Services Differ in Significant Ways from Other Institutions

WASHINGTON -- A study completed by a team of economists at the Office of the Comptroller of the Currency found that banks offering Internet services are typically more profitable than those that do not, with the exception of the smallest institutions.

"Our research suggests that in general, banks that offer Internet services are more profitable than banks that rely on more traditional delivery modes", said Jonathan L. Fiechter, Senior Deputy Comptroller for Economic Policy and International Affairs. "While it is too early for Internet services to have much of an effect on bank performance measures, it does appear that banks that were early adopters of Internet banking have adopted a more aggressive business strategy, including an emphasis on fee-generating activities."

The study draws on detailed information about the Internet banking activities of national banks, provided by OCC examiners in August and September 1999, as part of the OCC's ongoing efforts to stay abreast of significant technological changes affecting the banking industry. An article based on the study, "Who Offers Internet Banking?" by the OCC's Karen Furst, William W. Lang and Daniel E. Nolle will appear in an upcoming issue of the OCC's *Quarterly Journal*.

Although the availability of Internet banking services for consumers is growing rapidly, the study found that the number of households banking online remains relatively small. But while relatively few households have found a compelling reason to switch to online banking, the Internet holds much greater potential for providing banking services to businesses. Businesses of all sizes are looking for cost savings by moving to electronic banking and payments services, and some banks are beginning to respond to this demand, according to the OCC study.

The study also found:

- Among newly established banks, those offering Internet banking were significantly less profitable and less efficient than new non-Internet banks, probably because smaller institutions find it more difficult to absorb the high startup costs associated with electronic banking.

-more-

- Twenty percent of national banks offered transactional Internet banking -- the ability for customers to access their accounts and transact banking business via the Internet -- in the third quarter of 1999. However, these banks accounted for 90 percent of national bank assets and 84 percent of all consumer deposit accounts. This represents significant growth from June 1998, when OCC research showed that 6 percent of national banks offered transactional Internet banking.
- Every national bank with assets of more than \$10 billion offered Internet banking, as compared to only 7 percent of the smallest banks -- those with less than \$100 million in assets.
- Smaller banks offered fewer Internet banking services compared to large banks, both for consumer and business customers. Large banks have more aggressive plans to offer business Internet banking services.
- The OCC projects 45 percent of national banks will offer transactional Internet banking services by 2001, based on information provided by examiners. Most of the growth in Internet banking will occur with small banks coming on-line. However, almost half of small national banks had no plans to offer transactional Internet banking services.
- Customer use of Internet banking is disproportionately concentrated among a few large banks, with the top five banks accounting for more than one-third of all Internet banking users.

#

The OCC charters, regulates and examines approximately 2,400 national banks and 58 federal branches of foreign banks in the U.S., accounting for more than 57 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.