FINANCIAL Insecurity

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[Achieve it, and] it reinforces in consumers' minds our advantage as stable institutions you can trust," says Austin Adams, executive vice president of automation and operations at First Union Corp. in Charlotte, N.C.

Security is one factor that makes the Internet both an opportunity and a threat to banks.

One big motivation for banks: Holding on to the substantial fees many derive from merchants for processing credit-card transactions. First Union, for example, has more than 35,000 merchant banking customers, according to a company spokeswoman.

And it's not just plastic that's at stake. Some banks are evaluating ways to secure business-to-business payments over the network, so-called check equivalents. Others are examining debit and cash transactions on the 'net.

Conservative estimates put the value of Internet transactions in the year 2000 at roughly $10 billion. "And it could easily go much higher," says Richard Crone, director of KPMG Peat Marwick's center for electronic banking in Los Angeles.

Someone has to process all those transactions, and if banks can't or won't, merchants will find someone who will. That's the opinion of Steve Dieringer, group product manager for electronic services at Banc One Corp. in Columbus, Ohio. "The market wants payments in a bad way," he says. "If banks wait too long, we risk letting others take control."

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"Internet security is an opportunity for us. [Achieve it, and] it reinforces in consumers' minds our advantage as stable institutions you can trust."

— Austin Adams, executive vice president of automation and operations at First Union Corp. in Charlotte, N.C.

Turf wars

Indeed, financial institutions are already feeling pressure from competitors outside the industry such as Microsoft Corp. in Redmond, Wash., CyberCash in Reston, Va., and First Virtual in Los Angeles.

"Networks turn the world upside down. They essentially eliminate our geography and size advantage," says John Doggett, director of applied technology at Bank of Boston Corp.

The Internet also undermines what has been a major barrier for these so-called alternative providers — the expensive infrastructure banks have amassed for processing existing forms of payment such as paper checks, wire transfers and automated clearinghouse functions, including direct deposit of payroll. With the rise of new, network-based payment mechanisms, those investments may simply become dead weight.

"If someone can serve customers electronically, is all our brick and mortar obsolete?" Dieringer asks.

Becoming "disintermediated" — separated from customers by technology and changing markets — is much on the minds of bankers these days. And rightly so, says Bruce Stewart, an Internet banking expert at Gartner Group, Inc. "If a customer's primary interaction with the bank is by machine,"

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The Cyberbanks

A partial list of banks that are moving aggressively to offer services on the Internet

Security First Network Bank, Pineville, Ky. (http://www.sfnb.com). Received federal regulatory approval last month to provide a full range of banking services, including the ability to make money transfers or bill payments or access checking account balances over the Internet. The bank is a joint venture of Wachovia Corp. in Winston-Salem, N.C., and Huntington Bancshares in Columbus, Ohio, and was initiated by Cardinal Bancshares in Lexington, Ky. It will use a trusted operating system developed by SecureWare, Inc. in Atlanta. *Source: Secure First Network Bank Web site*

Wells Fargo Bank, San Francisco (http://www.wellsfargo.com). Allows customer inquiries into account balances using Netscape's Navigator secured browsers. The bank also offers transaction histories for checking and savings accounts over the Internet and intends to add other banking functions, such as money transfers and bill payments, this year. *Source: Gailyn Johnson, senior vice president of on-line financial services*

Capital One Financial, Falls Church, Va. (http://www.capital1.com). Offers secure credit-card applications for those using the Navigator browser. It allows applicants to continue in non-secure mode but provides several warnings. *Source: Capital One Web site*

First Union, Charlotte, N.C. (http://www.firstunion.com). Besides building an electronic mall for secure transactions, the bank accepts credit-card applications on the Internet. It warns users if they are not using a browser that supports either Secure Sockets Layer or Secure Hypertext Transport Protocol security protocols. The bank is currently studying how to do remote banking via the network, such as accessing checking account balances and transferring funds. *Source: Tom Bartolomeo, First Union*

Leaving IS Off-Line

If Internet banking is truly the paradigm shift that some say it is, why aren't bank IS professionals leading the way?

Amid all the commotion about Internet security and virtual banking, one group is curiously quiet: bank IS professionals. Indeed, run down the list of bank Web sites and you'll discover most were conceived by marketing or alternate delivery groups and implemented by consultants.

"Everything is happening so fast, we couldn't possibly do this in-house. We just don't have the expertise," says Tom Bartolomeo, vice president of marketing in the Card Products Division at First Union. His group relied on TriNet Services, Inc. in Raleigh, N.C., to design its Web site.

First Union's experience is typical, says Bruce Stewart, an Internet banking expert at Gartner Group. "Marketing spots an opportunity, and it doesn't even occur to them that IS could help," he says.

One reason IS is getting left out of the loop: It drove the last big — and unsuccessful — wave of electronic banking in the 1970s. That effort failed, some say, because mainframe-centric IS managers took a proprietary, command-and-control approach to information access.

"The technology environment of the Internet is very alien to bank IS," says Steve Dieringer, group manager for electronic services at Banc One. So, too, are the small, entrepreneurial vendors banks must deal with on Internet projects. "These are not the blue-suited, IBM types IS people are used to working with."

While there's no harm in going outside to get a Web server up quickly, banks need to keep the long-range picture in mind. That's the view of Dan Eitingon, executive vice president of technology banking at First Interstate in Tempe, Ariz. The bank hired Cypress Consulting, Inc. in Sebastopol, Calif., to create its home page, which has been on-line since December.

To achieve the promise of true cyberbanking — offering account information, bill payment, transfers and other services over the Internet — Web sites must be linked to the institution's existing banking systems.

"Someone is going to have to do things like building firewalls and making sure systems are scaled to handle increased traffic flows," Eitingon says.

Who better than IS? First Interstate may provide a glimpse into the future of managing commercial Internet projects. The bank's technology banking group, formed this spring and headed by Eitingon, combines marketing, IS and phone center experts. Their mission: build the necessary infrastructure and products to lead in alternate delivery of banking services.

"The Internet is everyone's responsibility," Eitingon says. — *Brian McWilliams*