

Indiana-Based Internet-Only Bank Bucks The Trend, Shows A Profit

By Lynn Koller

While some Internet banks flounder, First Internet Bank of Indiana is profiting as a Web-only institution - at least for the last two quarters. The tide may turn on this \$235 million-asset bank, but David Becker its founder and chief executive officer, believes that maintaining low costs and high-quality customer service will keep it solid.

Costs Not Always Low

Costs were not always low. Indianapolis-based First Internet Bank opened to the public in February 1999, targeting high-tech consumers with a \$6 million advertising campaign. They informed people that at First Internet Bank, they could "Bank Free and Bank Naked" with ads running in trendy publications such as Industry Standard and Wired.

The campaign included newspaper advertising in large metropolitan areas and a full-page ad in USA Today. In addition, the bank tried radio ads, which David says were the most difficult marketing to track. He believes the e-mail marketing component proved the most effective advertising, because the selected recipients were predisposed to the notion of Web banking. (Chicago-based Yesmail.com Inc. developed targeted e-mail for First Internet Bank.)

account access bill payment open account maintenance exit

Account Summary
Account History
Funds Transfer
Order Checks
Statements
Deposits
Withdrawals
Account Access Help

Account Access

Account Summary

Hello, John, Welcome to First IB Online Banking!
Your last login was on Friday, October 19, 2001 at 9:02:00 AM EST.

Checking

123401001 MY CHECKING

[Account Detail](#) Current Balance: **\$1000.00**
[Last 15 Transactions](#) Available Balance: **\$1000.00**

Savings

123401002 REGULAR SAVINGS

[Account Detail](#) Current Balance: **\$500.00**
[Last 15 Transactions](#) Available Balance: **\$500.00**

Certificates

123401004 12 MONTH CD

[Account Detail](#) Current Balance: **\$1052.21**
[Last 15 Transactions](#) Available Balance: **\$1052.21**

Loans

123401005 VISA (25 DAY GRACE)

[Account Detail](#) Current Balance: **\$500.00**
[Last 15 Transactions](#) Available Balance: **\$2500.00**

Click on the account name for account details or to personalize the

First Internet Bank has cut its marketing costs significantly since its start-up days, but still manages to acquire new accounts. It opened about 1,000 new accounts in August 2001.

"Our first wave of clients were definitely computer-savvy individuals," David says. "I would say that now, probably a third of our customers coming through the [theoretical] doors are referrals from existing customers." About 90% of the bank's 21,000 customers are consumers.

Making History

Opening ceremonies for the new bank took place at the American Museum of Financial History in New York where it received press coverage from the major networks and overseas media. "We got a great start," David says.

While customers are still allowed to bank naked, some can no longer bank free. Like similar banks, First Internet Bank recently implemented a \$4 monthly fee for checking balances under \$500, still a relatively low fee. For accounts maintaining a balance over requirement, the bank offers interest at 2.75%. Money market accounts earn interest at the rate of 3.25% and regular savings at 2.90%. All customers receive electronic bill payment at no charge.

"We've seen many of the Internet-only banks move to a minimum balance requirement," says Moriah Campbell-Holt, research analyst at Gómez, Inc., located in Waltham, MA. Gómez ranked First Internet Bank second on its Internet banking scorecard for Fall 2001, after top-rated Citibank and ahead of Alpharetta, GA-based NetBank Inc., the largest Internet-only bank.

Moriah says that despite its relative success, many people have not heard of the First Internet Bank. David would like to change that of course. He feels the bank's largest challenge is making people aware of the benefits of its real-time information capabilities. Customers can view transactions on their accounts immediately through the site. David says that while customers "absolutely love it," this feature is difficult to sell to non-customers.

Service A Keystone

Customer service has been a keystone to the bank's accomplishments. RightNow Technologies Inc., headquartered in Bozeman, MT, helps First Internet Bank of Indiana deliver its Web-based CRM applications - including real-time Internet chat, an intuitive self-service "frequently asked questions" function, e-mail response management, and service analytics - to bank customers and representatives.

"RightNow provides Web-based customer service solutions that improve service quality while reducing costs," said Greg Gianforte, CEO of RightNow Technologies. "We continue to see an increase in the number of banking and financial institutions implementing Internet customer service because of the efficiencies it brings to service organizations."

The Internet chat feature allows a customer to communicate with a bank representative while simultaneously navigating their Web site. David says this service particularly helps customers who have only one phone line - which represents the majority of his consumer customers, he believes. The bank representative can actually navigate (or shadow) the customer's movement through the site, guiding him to the appropriate area.

"When we launched the bank, we spent more money on the customer service ... than building the bank itself," David says. First Internet Bank has live operators from 7 a.m. to 9 p.m., on weekdays and 10 a.m. to 5 p.m. on Saturdays. The call center received about 14,000 telephone calls in the month of August.

Not Cutting Costs On Customer Service Reps

David says that one area where the bank does not cut costs is on customer service representatives. The bank's phone representatives are well-trained employees, such as head tellers and senior loan officers.

"We figured that if the customer couldn't take care of it any other way [via the extensive Web services], they needed quality customer service," David says.

Moriah agrees that First Internet Bank's customer service has proven itself to be above par.

"They have wonderful relationship services in terms of being able to do things online," Moriah says. "Our testing has shown that they're relatively responsive."

Not Perfect

All is not ideal yet, however. Internet banking customers still have a tough time with cash issues and deposits. The bank supplies envelopes for mailing checks, and check deposits can also be made through participating MAC ATMs, but cash deposits are risky for customers via mail and ATM. Customers can withdraw cash through any MAC or PLUS automated teller machine.

David admits that the cash issue is a difficult one, and says most customers make ACH deposits. He actually recommends that consumers and businesses that routinely deposit cash keep a local banking relationship, in addition to a First Internet Bank account where, according to him, "You get a better rate and a better product."

Wireless Services

The bank began offering limited wireless services in October 2000, and expanded them in May 2001. Customers with certain palm devices and wireless phones may check account balances, transfer funds between accounts, view the past 15 transactions, and perform bill payment functions through these devices. David admits that wireless services need significant improvement before widespread customer acceptance.

"It's a product we think we need to have because it's coming," David says. "Wireless connectivity is not the strongest in the states. Even in a major metropolitan area, you don't always get good reception," David says.

Increasing The Bottom Line

Whether its customers are banking with wires or without, they are increasing the bank's financial status. First Internet Bank's earnings for the first six months of 2001 were \$299,901, compared with a loss of \$2.34 million during the comparable period in 2000. Net interest income rose by 45% to \$2.65 million, while non-interest expense fell nearly 43% to \$2.28 million.

"I think that in terms of the [Web] banks still standing, we've seen a lot of discipline from First Internet in terms of their spending," Moriah says.

The bank's assets grew from \$188 million to \$235 million between June 30, 2000, and June 30, 2001.

David asserts that not having the baggage of a traditional institution was a plus when starting First Internet Bank, which helped it design services for efficiency and cost-effectiveness. "We had a clean slate. Unlike traditional banks, we built it around how it was best for the consumer," David says.

Despite its relatively strong standing, First Internet Bank still has a lot to prove.

"There are many, many customers who will never bank with an Internet-only, even if they do all of their banking through the Internet and ATM," Moriah says.

In addition, Internet banking might be the last thing on consumers' minds lately. While people worry of war and recession, sending their paychecks off to a theoretical vault in a virtually invisible bank may be a tough sell. Banking naked may not be enough anymore.