Unit 7
Case
First Internet Bank of Indiana

During the first wave of electronic commerce, many established banks opened online branches and a considerable number of new, completely online, banks were formed. Many of these online banking initiatives were closed, sold, or merged into other operations after the first wave of electronic commerce had subsided. By 2001, many notable names that had dominated the first wave were gone. For example, Bank One had closed its online subsidiary Wingspan Bank and merged its operations into its existing retail banking department. Royal Bank of Canada had done the same thing with its Security First Network Bank (generally believed to have been the first online bank). CompuBank and G& L Internet Bank were both sold to other banks, and USABancshares. com was closed in a flurry of fraud accusations and regulatory concerns.

Many early online- only banks faced similar challenges. They often bought loans instead of originating them. Purchased loans yield lower interest income because the originating bank always charges a fee or discount. They also tended to pay higher rates on customer deposits to attract new customers. These routes to rapid growth can significantly reduce profitability. Physical banks with many branches gain customers and market share because people walk or drive by a branch office and see the bank's name. New online- only banks must spend substantial sums on advertising that helps establish them as viable brands in a highly competitive market. And many well- established banks now operate online, offering customers a known brand name and the con-venience of physical branches along with online banking services. Small businesses were reluc-tant to deal with online- only banks in the early years of their existence. Small businesses generate considerable profits for banks because they tend to borrow money at relatively high interest rates and also tend to keep large balances in their checking accounts. Thus, there were a number of challenges that made survival difficult for online- only banks.

In 2004, the U. S. Federal Deposit Insurance Corporation (FDIC) issued a report on " limited- purpose banks" (which included online- only banks) in its Future of Banking Study series. The FDIC report concluded that the economics of operating an online- only bank were not attrac-tive and that very few such banks could ever expect to be successful in the long term. Despite the FDIC's gloomy outlook, a number of banks operate only online. One of those banks is the First Internet Bank of Indiana (often called First IB).

First IB was launched in early 1999. By 2001, the bank had become profitable and had more than $ 200 million in assets. By 2008, its assets had grown to nearly $ 600 million. Compared to the large international banks that dominate the financial world, $ 600 million is a relatively small amount (for example, the Bank of America has more than $ 500 billion in assets), but First IB was able to operate efficiently and with low costs because it had no physical branch offices and very few employees compared to traditional banks.

First IB invested its resources in building the best Web site it could design and then followed a process of continually adjusting the site's design and the services offered to respond to cus-tomer comments and requests. For example, First IB created a frequently asked questions (FAQ) feature that reduced customer inquiries dramatically.

It was also one of the first banks to offer statements and check images online. In 2004, the bank began to make check images available online the day after the check cleared (the industry average delay at that time was four to seven days). The bank has consistently received excellent reviews of its services by online business rating agencies and in the press.