



Home Banking

Chemical Bank's Experience with Home Banking

Lee Pomeroy

It takes both faith and money for an organization to become a provider of home banking services. According to this analysis, though, the field may generate significant new business for those willing to take the plunge.

Chemical Bank's experience with home banking began in September 1983 in New York City under the name Pronto. Pronto is a two-way interactive information system, an entirely new customer service. It is not a cable television type system but an interactive one that enables the consumer to ask for and receive specific information or to execute transactions. Cable's advantage is that it allows for motion video, and so it clearly will be part of some home information services in the distant future. But cable is not interactive today and there is little likelihood that its suppliers will re-lay the extensive cable system already in place. To base a home information system on the potential of two-way cable appears misguided. In addition, the universe of potential customers on cable systems is quite different from and smaller than the

The author is vice president and director of planning for electronic banking (Pronto) for Chemical Bank, New York.

number with telephones. For these reasons, Pronto is based on the telephone.

To use Pronto as a consumer you need a phone, a television, and a home computer. The home computer might cost from \$40 to several thousand dollars. Today, Pronto can be accessed by any IBM, Apple, or Atari home computer and it is compatible with the Commodore computer. We plan to extend access to other personal computers as consumers buy them. We are simply responding to market share.

The Pronto service is sold at two levels: to consumers at retail and to banks as wholesalers. Banks then sell the service as their own. In selling Pronto through other banks, Chemical Bank has used the same approach as with its cash management system known as ChemLink, or BankLink, now sold by 68 U.S. banks under their own service mark.

Pronto provides only home banking, but through additional modules and enhancements

we plan to expand it into new services. Just as banking services represent a small sector of the financial services industry, so too will home banking be a specialized service in the home information industry. Functions currently available on Pronto include balance inquiry, funds transfer, bill paying, electronic mail, home budgeting, and information on financial services and personal finance issues. New functions being added this year include national and local news, stock quotations, and on-line investment purchases and sales. The functions to be added later are nearly endless: tele-shopping, ticket ordering, and, in New York City, off-track betting. The priority depends on consumer demand. **A Special Study of the Home Information Systems Market**, Booz Allen's 1981 survey of potential consumer demand, showed

We were pleased with the evaluations of the first three months of the Pronto roll-out: by the end of 1983 we had 2,500 customers on the system. That base has expanded to over 11,000 consumers in 5,400 households using Pronto today. During the initial three months, we found a huge increase in consumer awareness of both the Pronto service and home banking in general.

Our market research led us to expect that home banking could be a big draw for new customers and for account consolidations, and our results to date have borne that out. Seventeen percent of Pronto users opened their first account at Chemical in order to obtain home banking services. Press reports on Bank of America's home banking product in California indicate a similar experience of customers

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financial services and transactions, as opposed to static information, at the top of the list.

The roll-out of Pronto in 1983 gave us a chance to test the retail market for home banking services and to establish a sales force and distribution plan for it. Our target market was limited to consumers owning or planning to purchase a home computer. This market draws from younger, better educated, higher income sectors. Our advertising emphasized convenience, control, security, and 24-hour availability—concepts consumers associate with commercial banks. Of these, convenience was the theme that dominated in all of our promotional efforts.

We introduced the new service and stressed its availability at non-bank locations, as in a joint advertisement with Bloomingdale's. We also used Computerland and Crazy Eddie's, for those familiar with the New York market. Newspapers were quickly identified as our best value for bringing customers in, and since home banking is a new service with a high-tech image, we received good press coverage throughout our market area.

switching banks to obtain the service. The articles indicate that about a third of Bank of America's customers are new.

We also learned from our research that 51 percent of Pronto users have opened a new account with Chemical since taking on the Pronto service. It is clearly a powerful account consolidation tool. Our current market research shows that new reasons predominate in consumer decisions to purchase and use personal computers. Financial applications, including home banking services, have moved to a priority status.

Our plans for Pronto for 1984 focus on our desire to expand our active client base to at least 20,000 households by year-end and to use that client base for hands-on product and market testing. We recently introduced a new product aimed at small businesses and added both financial information and securities trading to the core Pronto home banking package.

We consider the key issue in the growth of home information systems to be—“Whose customer is it and who controls that customer?” Three distribution alternatives are competing

for control of and access to customers. The first alternative, direct distribution from producer to consumer, assumes that consumers would be willing to access numerous specific data bases and to pick and choose the services they apply for, such as Dow Jones Financial News or Home Banking from Bank of America. The second is based on the assumption that consumers would rather deal with only a few information suppliers, who bring together related services they think consumers prefer. Examples of this approach include the Source and VideoFinancial Services, a seven-bank consortium providing home banking services to other home information providers. The third alternative is a system operator who packages the services, providing consumers with a full range of home services obtained directly from producers and some speciality packagers, such as VideoFinancial.

Chemical Bank thinks that packaging services will be the key to obtaining and keeping market share. Packaging simplifies sign-on procedures, security, billing, and customer service. The packager serves as middleman between

potential operator of home information services. Neither insurance companies, brokerage houses, the telephone company, nor retailers enjoy a comparable consumer relationship. But if banks choose not to be system operators they could forfeit this strong customer relationship and the potential profits from providing information services to their customers. Controlling the packaging and offering the services is necessary to maintaining the customer relationship; otherwise banks will simply appear as a menu item. A second loss to banks that are not system operators is the opportunity to participate in revenues from any sources other than home banking. And finally, even the home banking fees paid by consumers will be shared with the system operator.

At Chemical Bank we think that banks have an opportunity to step into the role of system operator, to preserve control of customer relationships, and to share in new revenue opportunities in this emerging industry. Banks should position themselves to benefit from the growth in home information services, not be outsiders insulated from contact with customers.

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consumers and information providers, which presents a marketing opportunity for banks to function as a packager. As packagers, banks not only provide banking transaction information, but offer consumers information on a variety of products and services and expand the banks' value added. If banks do not soon step in to function as packagers, they will have to deal with their home banking customers through a middleman.

Without banks operating those home services, we see several lost opportunities. First, and most important, we will pass to the system operators control of and access to our customers. The relationship with the consumer is paramount for success, and banks enjoy stronger relationships with their customers than any

Banks will be players in this new industry because their services have the highest demand. They must now choose whether they will be in for a piece of the small market—financial services—or a piece of the large market—home information services.

Banks have numerous advantages as packagers of systems for home information services, but none is more important than the customer base. Banking and financial services continually rank among the services most desired by consumers for delivery into the home. Furthermore, consumers continue to exhibit a preference for stronger ties with their commercial banks as long as their banks provide competitive services.

But banks represent only one of the competitors seeking position in this emerging industry.

While only a few home banking or home information services actually exist for consumer purchase today, many players have tested or are testing information services. Publishers, retailers, and hardware and software providers eye the industry with great interest, as all will participate in providing some of the services consumers wish to purchase at home.

The financial motivations are very strong in this potentially huge industry, strong enough to induce three corporate giants—Sears, IBM, and CBS—to join together to develop home information services. This three-way shared venture highlights two facts known to all who have studied the emerging industry of home

information: succeeding in this industry will require an ability to combine skills across industries, and the winners stand to be richly rewarded.

That is the competition. Are they going to leave a place for banks? We think banks have a solid chance to be winners in this new industry. The customer relationship strength banks bring may be more important than all the other technological skills needed for success.

But if banks are not involved in controlling and distributing these systems, a wedge will be driven between them and their customers, leaving banks to function solely as a payment utility. That alone is not a very profitable service.