

# Online b@nking

Are you still going into the local branch of your bank (if you've still got one!) to deposit cash or pay your bills? Well, you're behind the times because online banking is the way forward. Paul Gosling explains the ins and outs and reviews 20 online banks

**T**here is one overwhelming reason banks are now pushing online banking: it costs 10 times less for a bank to service customers over the Internet than it does if they call into branch offices. This is great news for consumers if banks pass on the savings, but this isn't always the case.

It is astonishing that in this age of low-cost Internet transactions banks such as Barclays, HSBC, Lloyds-TSB and NatWest believe they can get away with paying around 0.1 per cent on current account balances. Unless they change their approach very quickly then the future is likely to lie with online banks such as Cahoot, which pays 6.5 per cent on its current account, and Smile, which offers 4.85 per cent.

In fact, the economic laws of banking have been reversed. The Big Four banks used to be in the driving seat thanks to heavy marketing and lots of high-street branches that allowed customers to make transactions easily. As a result they benefited to the tune of multi-billion pound annual profits. But in this Internet age of banking small is now best.

Branches are becoming seen more as overheads than assets and the branch closure programmes launched by Barclays and others have been public relations disasters. However, competing against banks operating cheaply over the Internet – which offer good rates of interest on current accounts and even better for savings – requires fewer, better run branches. The alternative to closing branches is to make them work harder, which is one of the factors driving banks such as Lloyds-TSB to diversify more heavily into other financial products such as insurance and mortgages that can be sold out of the expensive branch network.

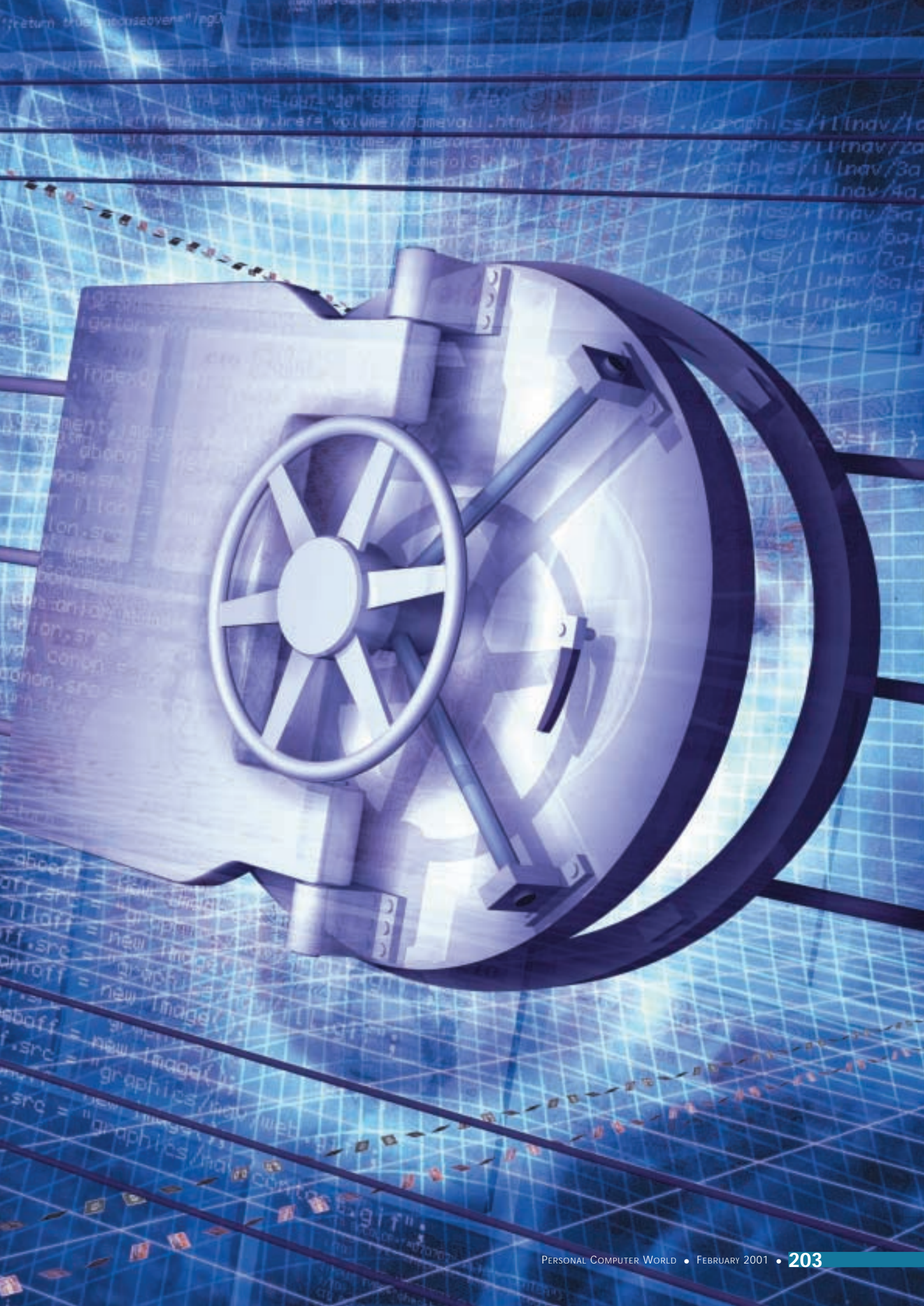
Despite this, more fleet-footed competitors can offer better deals. These new rivals include Abbey National's

## contents

- 206** Alliance & Leicester  
Bank of Ireland  
Bank of Scotland
- 207** Barclays Bank  
Cahoot  
Citibank
- 209** Credit Suisse  
Egg  
First Direct
- 210** First-e  
Halifax IF  
Lloyds-TSB
- 213** Nationwide  
NatWest  
Newcastle Building Society
- 214** Royal Bank of Scotland  
Smile  
Tesco
- 217** Virgin  
Woolwich  
Problems of online banking
- 218** Online credit cards
- 221** Editor's Choice

• *Online banks reviewed by Paul Gosling*







Cahoot; The Co-operative Bank, which operates as Smile on the web; Egg, which was established by the Prudential; and one of the world's largest banks, Citibank of the US, which is now entering new markets including the UK, without the burden of a branch network. Even Credit Suisse, one of Europe's largest banks, has just started targeting customers in all parts of the continent – geography is less of a barrier to banks in the Internet age.

The cost benefits from being based on the Internet are shown most clearly in the savings rates offered by some online banks – at a time when the Bank of England's base rate is six per cent. Smile's mini-cash ISA pays 7.25 per cent on balances from just £1 and Nationwide's e-savings account yields seven per cent, also on £1 plus. The other best buys, according to Moneyfacts (the monthly trade magazine for the personal finance industry), are Abbey National's eSaver, paying seven per cent (including introductory bonus) on balances from £2,000; Bank of Scotland's fixed rate bond which pays seven per cent, with a minimum deposit of £3,000; and Newcastle Building Society, which is offering an interest rate of 6.6 per cent on its Net Savings Account on balances over £10,000. Interest rates change quickly and for the latest information check Moneyfacts' website, [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk).

### Winning customers

Those banks offering the best Internet deals are likely to win the best customers quickly. Busy, high-earning executives are exactly the type of customers that the banks want. And these people are some of those most likely to be won over by Internet banking, thanks to its convenience for those who are perpetually on the move – just plug the laptop and modem into the hotel room sockets and you can quickly sort out your finances. It is the migration of those top customers from the Big Four to emerging rivals that is likely to transform the banking industry and could wipe billions off the Big Four's profit figures.

As each bank closes its most loss-making branches, so more problems arise for them and their competitors. The first bank to close its branch in a small town will suffer from bad publicity. The last one to close will suffer from even worse publicity as well as bad customers – the costly ones that no-one wants. But

simply turning away expensive customers who cling to branch banking habits can have its own indirect costs. When one US bank did that it found it was throwing out the mums and aunts of many of its best customers, who promptly walked elsewhere with their accounts.

The commercial pressures from the web are already having their impact. Share prices are volatile and Lloyds-TSB and the Bank of Scotland – previously seen as the best managed banks – have seen stock prices fall as investors wonder whether they are fit for the Internet world. The news that Halifax is copying the Internet banks by offering decent rates (four per cent) on current accounts has helped to further damage banks' share prices. And the net was perhaps a major factor in the gobbling up of NatWest by the Royal Bank of Scotland – NatWest had one of the worst Internet sites among the banks, while the offering from RBS was much more competent.

Meanwhile, the Woolwich obtained a good price for its acquisition by Barclays precisely because it had an excellent website, a highly respected strategy for winning customers to WAP banking and a business plan that was seen as capable of effective transference to a larger bank – as well as a healthy mortgage portfolio.

But even those banks that have mature Internet strategies have suffered badly on occasions. Halifax-owned IF's original website was brilliant in design – so much colour, flashing lights and ear-catching music that it could have been a trailer for a *Mission Impossible* film – but flawed in execution. Its launch was seriously delayed by software problems – though its parent the Halifax says firmly that these are not security related.

In contrast, the much publicised problems with Barclays' site were very much related to security. Although the site looks brilliant, it failed the most important test – customers could apparently access other clients' accounts. Barclays reassures us that the glitch has been resolved, but a bad reputation is hard to mend. Similarly, the Egg site looks wonderful but it too had a software failure that theoretically allowed customers to view other clients' information.

This problem is most worrying with Egg because of its hardline attitude to fraud. If someone else accesses your online Egg account and moves money out, even if it is because of an Egg security lapse, then the liability falls on you the customer, says the small print.

'Until you tell us, you will be responsible for any instruction in writing or by telephone or Internet which we receive and act on, even if it was not given by you,' Egg tells its customers. It should be stressed, though, that Egg's spokeswoman contradicts the contract, saying: 'The onus with us [as a company] is definitely not with the customer.'

### Credit card security

But the biggest problem with security continues to apply to credit cards (see box on credit cards later in this group test). There is a rapidly growing problem with fraudulent use of credit cards over the net, but there is also a fast rising tide of counterfeit credit card production that is generating wider questions of card security. Lack of confidence in payment security is the main factor holding back the growth of ecommerce.

As a priority, then, the banks have to find more secure means of paying bills online. The explanation of why they have not already done so may lie in an anti-trust hearing taking place in the US. Manufacturers have been talking for several years about smart card readers imminently becoming a standard feature of PCs. This would be an obvious means of paying bills securely, allowing users to make deductions from smart card electronic purses, the balances on which could be read and adjusted by the PC.

The failure of smart cards to take off is due, says the US anti-trust prosecutors, to a lack of real competition between the two main card issuers Visa and Mastercard. Supposed evidence of this is their joint commissioning of research to examine the potential of the smart card market. At one point Mastercard decided that it was not viable to go ahead with the widespread introduction of smart cards unless Visa also did so, because of the cost. The implication for the consumer has been years of delay to the introduction of a system that could make a dramatic improvement to online security.

A recent report in the US from research firm ActivMedia predicted that there would be a quick decline in the use of credit cards for Internet transactions, replaced by smart cards holding ecash balances. Typically these will be capable of being topped up at cash machines. ActivMedia believes that smart card Internet transactions will jump from virtually nothing currently to \$20b (around £14b) by 2002.

Domination of that online payment market seems likely to be fought for

primarily between Visa, which has just launched its VisaBuxx card in the US, and American Express, which has major ambitions in the online payment market.

One of the implications of the fight for domination in the online payments market, as well as the surge in support for online banks, is the prospect of greater promiscuity among the public regarding their banks. Perhaps in the future, fewer of us will be a Lloyds or a Woolwich customer, and more of us will be a Lloyds *and* a Woolwich customer, not to mention a Co-op and an AmEx customer, too.

The Co-op, for instance, boasts of winning 200,000 customers to its highly regarded Smile online bank, 80 per cent of whom were not existing customers. But one suspects that many of these did not jettison their existing accounts first.

### Easy account transfer

It will, though, soon be much easier to transfer accounts, thereby both introducing a more competitive market into the sector and possibly producing a major loss in market share for the Big Four. A pilot scheme is under way, under the control of APACS (the Association for Payments Clearing Services), through which bank customers will automatically have standing orders and direct debits transferred with them when they change banks. No more of the tedious form filling that probably puts off many people from trying to find the best interest rates on their current accounts. That could finally put an end to the oft-repeated statistic used in the banking industry that people are more likely to divorce than to change banks.

If you combine that promised new ease of transferability with the attractive rates of interest available online, and the simplicity and convenience of online banking, then we should soon see a real Internet banking revolution. Several recent reports have concluded that Internet banking will expand at an astonishing rate over coming years. Research from Amacis suggested that the Internet would become more important than branches for banking within three years. And a study by consultants Cap Gemini concluded that Europe is already ahead of the US in Internet banking in terms of market share (four per cent against three per cent), with European Internet banking set to take a quarter of transactions by 2003.

Prepare for lots more branch closures.

*Paul Gosling is author of Changing Money, published by Bowerdean, which examines the impact of the web on the financial services industry.*



## Alliance & Leicester



**THIS IS AN UNINSPIRING** site that is irritatingly slow to load, hard to navigate and generally confusing. The bank does not offer any Internet-only accounts, just online access to existing or new current accounts. This helps to explain why the interest rates are

uncompetitive – just 0.25 per cent on current accounts.

Overdrafts are reasonably charged at 12 per cent if authorised, but steep at 29.8 per cent if unauthorised (plus £3.50 per day and £27.50 per failed transaction). Fewer facilities are available online than from most competitors: you can access balances and recent transactions, but can

only make transfers to previously mandated accounts and can't organise or amend standing orders or direct debits.

The ugly colour scheme of orange and light blue helps produce an unfashionable image that does not sit well on the Internet.

The bank also runs a website ([www.billpayment.co.uk](http://www.billpayment.co.uk)) for online payment of utility and some other bills, including a few local authorities' council tax charges, through debit card. This is a simple and convenient system for paying bills, which is more attractive and works better than Alliance and Leicester's main site. It would be good if it were better promoted and more councils signed up to it. But it, too, would benefit from more imagination.

### DETAILS



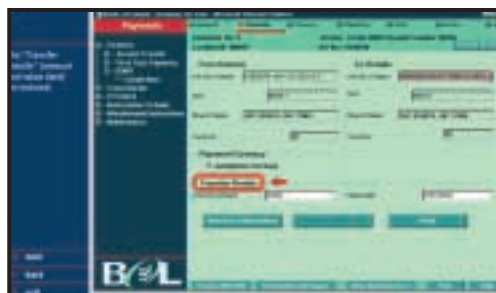
**CONTACT** [www.alliance-leicester.co.uk](http://www.alliance-leicester.co.uk)

**PROS** It's better than nothing...

**CONS** ...but only just

**OVERALL** The booby prize

## Bank of Ireland



**THE BANK OF IRELAND** operates in both the Irish Republic and Northern Ireland, and provides Internet banking through its very well organised website. Its Internet presence is unusual in that it works hardest at promoting itself and its history – probably reflecting

a lack of awareness of the bank among the wider population.

The website is very stylish, but is short on functionality. One of the attractions of this site is that those considering taking their banking online can run a demonstration to see how it works before committing themselves.

Current accounts are not very attractive, at zero rate for the standard product, 0.15 per cent for the 'advantage' accounts, or 0.5 per cent for students.

There are no high-interest, Internet-only savings accounts on offer, so savings rates are also unappealing,

starting at just 1.5 per cent. Premium gold savings accounts pay a better 2.8 per cent to 4.25 per cent, according to size of balance.

The Bank of Ireland (BoI) issues several credit cards, but rates on these are not good, either, at 19.34 per cent to 22.42 per cent. There is also a daily financial markets review, which is useful for business clients. Customers can take advantage of free Internet access through the bank.

### DETAILS



**CONTACT** [www.bankofireland.co.uk](http://www.bankofireland.co.uk)

**PROS** Attractive and easily navigated site

**CONS** Interest rates are uncompetitive

**OVERALL** Nice website, pity about the products

## Bank of Scotland

**THE BANK OF SCOTLAND** was one of the first to offer online banking with a direct-dial facility, which should be more secure than Internet banking and is still available. An improved Internet banking service is to be launched soon, offering third-party payments and inspection of standing orders and direct debits.

This is a nice looking site, but uninformative. Interest on current accounts is a mere 0.1 per cent on balances up to £5,000. (BoS current accounts will pay up to 2.02 per cent if the balance held is over £50,000, but holding this much in a current account is a crime against personal finances!)



There are no special rates applicable to Internet accessed current accounts. Interest rates on authorised overdrafts are 18 per cent (and 29.75 per cent on unauthorised overdrafts) which helps to explain why the bank has had

such healthy profits. BoS i.save, an Internet-only savings account, offers a more reasonable five per cent on balances under £5,000, or 6.1 per cent on larger amounts, but these are still less than those available from competitors.

The impression you get is that the bank took its leading position in online banking for granted, and has now fallen behind its competitors.

### DETAILS



**CONTACT** [www.bankofscotland.co.uk](http://www.bankofscotland.co.uk)

**PROS** Smart, reasonably easy to navigate site

**CONS** Interest rates are not as competitive as others on the Internet

**OVERALL** BoS needs to wake up to the changing realities of net banking

## Barclays Bank



**BARCLAYS CAN'T** be beaten on website design and it is the UK's leading banking site in terms of user numbers. It has great graphics, a simple and smart layout, and a wide range of services. Although Barclays came to the party quite late, it arrived with a bang – its site

has greater functionality than many of its competitors, allowing account inspection, transferring money to other accounts, bill payment and control of standing orders and direct debits.

The site links efficiently to the bank's other activities including online stockbroking and insurance. Barclays promises customers free Internet access for life and has recently announced a tie-up with Vodafone, allowing access to Internet banking through WAP phones. But there are no special rates for clients who exclusively use the Internet for banking, so current account interest rates are a mere 0.1 per

cent. The instant access savings account is equally uncompetitive, ranging from 1.5 per cent to 2.5 per cent according to the amount on deposit.

Loans are charged at a whopping 17.9 per cent for amounts from £500 to £4,000, which falls to 11.9 per cent on amounts between £12,100 to £15,000. In short, you could do better by going to one of Barclays' competitors.

### DETAILS

★★★★

**CONTACT** [www.barclays.co.uk](http://www.barclays.co.uk)

**PROS** Excellent website with good design and easy navigation

**CONS** Interest rates are uncompetitive

**OVERALL** Looks good, but doesn't deliver the goods

## Cahoot

**ABBEY NATIONAL'S** offshoot is an excellent example of a specialist Internet bank. Its current account is difficult to beat at 6.5 per cent, rising to 7.1 per cent on balances over £5,000. The account comes without a chequebook, so can be compared to an instant access savings account with direct debit and standing order facilities.

For current accounts with a chequebook the rate is still good, starting at five per cent for balances under £5,000 and peaking at 6.4 per cent for accounts holding more than £25,000.

Current accounts also come with



an automatic £250 interest-free overdraft facility, or a competitive seven per cent on higher amounts. An attractive alternative for those who

generally overdraw is to pay a monthly fee for your overdraft, which is equivalent to an interest rate of 5.6 per cent.

The credit card charges just eight per cent. Interest on credit card bills can be cut further by opting for a monthly fee. One important caveat: can such attractive interest rates really be held over the longer term? Cahoot says they can. Let's wait and see.

### DETAILS

★★★★★

**CONTACT** [www.cahoot.co.uk](http://www.cahoot.co.uk)

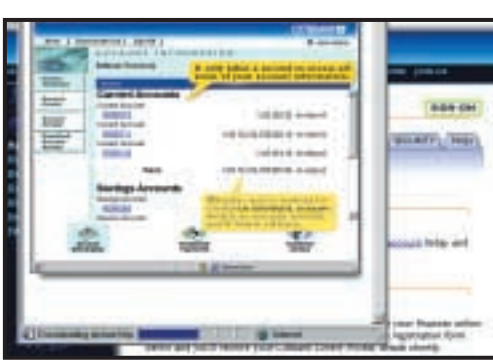
**PROS** Quality of site and quality of products

**CONS** The interest rates quoted in the site's headlines do not apply to all accounts

**OVERALL** With a great site and excellent rates, Cahoot is leading the market



## Citibank



**ONE OF THE WORLD'S** largest banks, Citibank has chosen to concentrate on Internet banking for its UK operation and has only four British branches (all in London). The

Internet banking is backed up by call centres for customer account control and customers using the Internet can also use the branches free of charge.

Citibank's website is not just smart and informative, but also well laid out with an effective online banking demo system. One plus over most other banks' sites is that customers can also change their cash machine PIN

codes online.

Accounts pay a good rate of interest, but do not match some of the emerging Internet banks. The sterling current account pays four per cent on balances

over £50,000; accounts in credit by less than £2,000 earn a more sober 0.25 per cent. The best news is that overdrafts up to £500 are interest free. Applicants need to earn more than £20,000 a year to open an account.

The instant access savings account, Citibank Accumulator, pays a more competitive 6.5 per cent, though needs a deposit of £5,000 to open. There are no withdrawal fees.

### DETAILS

★★★★★

**CONTACT** [www.citibank.co.uk](http://www.citibank.co.uk)

**PROS** Well organised website with good rates of interest

**CONS** Not so competitive for smaller balances

**OVERALL** Citibank may be a good option if you're a high earner





## Credit Suisse



**CREDIT SUISSE**, one of Switzerland's rich people's banks, launched a pan-European online investment service last September aimed at private banking customers. But this is less of a niche market than it might seem – it aims to

have one million customers within five years. The service is initially only available in Britain and Germany, but the personal banking service also run by the bank is not available to UK citizens who live in Britain.

The bank aims to create what it describes as 'a new kind of personal finance advice service', beginning with an information service, and evolving into a realtime share dealing service operating in 15 stock markets around the world. (This is not unique. Fastrade ([www.fastrade.co.uk](http://www.fastrade.co.uk)) is a share dealing service that trades on even more exchanges). Credit Suisse's customers can

arrange trades using sterling, US dollars, euros or Swiss francs. The service is aimed at what the bank calls Europe's 40 million 'new affluents'. They are to be serviced not only through the Internet, but also via digital TV and WAP phones. Accounts need a minimum of £600 and most customers will already have £30,000 of assets under management.

It promises a lot for a few, but the site is confusing and fails to deliver what the bank has started heralding.

### DETAILS

- ★★ CONTACT [www.credit-suisse.com](http://www.credit-suisse.com)
- PROS Nice, simple design.
- CONS Delivers very little for most people.
- OVERALL Not relevant to most of us

## Egg

**ONE OF THE** best looking websites around featuring an attractive design, combined with easy navigation. Egg's current account had not been launched as we were going to press, but the bank says it will be highly competitive with attractive interest rates.

The online instant access savings account pays 6.3 per cent, or 5.3 per cent with a cashcard, and has a single rate no matter how small the balance. The credit card charges 11.9 per cent, which is not the best on the market, but balances moved from another card are charged at just 2.5 per cent for the first six



months. So get moving on those card balances, but review your options after six months.

Loans over £10,000 are available at an APR of 9.9 per cent. Mortgages are

charged at a good 6.9 per cent APR, with a promise that rates will not rise above one per cent over the Bank of England's base rate.

Egg promises its insurance brokerage service will beat any motor insurance renewal offer. The website also contains an online shopping mall, where if you use the the bank's credit card you'll earn a two per cent cashback reward.

### DETAILS

- ★★★★★ CONTACT [www.egg.co.uk](http://www.egg.co.uk)
- PROS Well designed and easy-to-navigate site, with excellent products
- CONS The websites of the retailers on the shopping mall don't all match Egg's standards
- OVERALL Excellent, but can the interest rates last?

## First Direct



**HSBC HAS TAKEN** a different approach from its Big Four competitors by establishing a low-cost, non-branch subsidiary bank. Initially First Direct operated, very successfully, as a phone bank, but is reinventing itself

as an Internet bank. Its website is well designed, attractive, informative and easy to navigate.

Existing phone customers can use the website to transfer their accounts to the Internet. But Internet customers can still use the bank's call centres.

The current account pays five per cent on all balances, the savings account also pays five per cent on smaller balances, rising to 5.5 per cent for amounts over £5,000; 5.75 per cent over £50,000 and six per cent over £100,000. Overdrafts are charged at 10.9 per cent and all current account customers have automatic use of an

overdraft facility without having to pay a facility charge or penalty.

The credit card charges interest at 4.9 per cent for six months, after which it rises to 10.9 per cent.

While the bank also uses its website to promote its mortgage, investment and insurance products, these are not currently available over the Internet. The account management demonstrator was not working when this site was reviewed.

### DETAILS

- ★★★★★ CONTACT [www.firstdirect.com](http://www.firstdirect.com)
- PROS Well designed and easy to navigate site
- CONS Not all the bank's products yet available online
- OVERALL A good site but still in development



## First-e



Rates are excellent – 4.88 per cent on current accounts and six per cent on savings accounts. A shopping mall is also attached to the site with special offers, including PCs, which First-e claims are significantly cheaper than on the high street.

Internet banking can also be conducted from Nokia 7110 WAP phones.

As this is not run by a UK bank, it is not a member of the Banking Ombudsman scheme, but it has established its own customer complaints procedure run by an independent solicitor.

First-e also provides an investment

**THE FIRST EUROPEAN** Internet-only bank, launched in November 1999, First-e is the UK Internet operation of France's Banque d'Escompte. It has a simple design that is easy on the eye and backed by an excellent navigation system.

account, through which customers can share trade on the London exchange with settlement taken straight from a First-e account.

The site has had a bad press over suggestions of weak security, but the bank says that complaints have been overstated. We were worried that First-e failed to respond to an email question on its depositor protection scheme, as most Internet banks respond very quickly to email enquiries.

### DETAILS

★★★★★

**CONTACT** [www.firste.com](http://www.firste.com)

**PROS** Pleasant website and good interest rates

**CONS** Not a full range of financial products; customer support seems poor

**OVERALL** Good rates makes this one to watch

## Halifax IF

**HALIFAX'S INTERNET** bank is rapidly becoming an inadvertent case study of how not to launch an online operation. Announced with a big fanfare in July, it was pulled days before its launch, another date was set for August and then its appearance was delayed again. At the time of going to press there was still no date for the final launch.

What is even stranger is that before the phone element went live, the website looked great. Then the website was changed from an exciting zappy format, accompanied by music, to a boring set of still pictures. The whole venture threatens to badly



damage the Halifax's reputation – despite the parent's website itself being highly regarded, with good functionality and support for online share dealing.

The plus point for IF is that the current account pays a good five per

cent and the savings account pays up to 6.25 per cent. Loans will be available at 10.5 per cent and the interest on credit card balances is 10.8 per cent.

There is a good online demo facility of how IF can improve your personal finances. But the bank declines to explain the problems that have caused the Internet site's launch delays, saying only that they are 'capacity problems' and are definitely not security related.

### DETAILS

★★

**CONTACT** [www.if.com](http://www.if.com)

**PROS** Products look good

**CONS** Website isn't currently up to the job

**OVERALL** Not much to be said thanks to the delays

## Lloyds-TSB



**LLOYDS-TSB HAS** belatedly entered the Internet age with a revamp of its website. This is a single gateway not just to Lloyds-TSB banking products, but also to those of subsidiaries – Cheltenham & Gloucester for mortgages and Scottish Widows for pensions and life assurance, as well as a car leasing scheme.

The site is professional and smart, but like Barclays and NatWest, Lloyds-TSB is finding it hard to move from its role as a branch-based bank offering low interest rates, to a virtual bank with more attractive products. Consequently, the current account interest rate of 0.1 per cent is uncompetitive compared with the standalone

Internet banks.

Interest on loans from £500 to £3,000 is 19.8 per cent; from £3,000 to £5,000 is 17.7 per cent; and over £5,000 is 15.9 per cent. Interest on current account overdrafts is 16.8 per cent, but 29.8 per cent when unauthorised, or just 7.4 per cent for students.

APRs on Cheltenham & Gloucester's mortgages range between 7.4 per cent and eight per cent according to size and term of loan. One of the benefits with Lloyds-TSB is that deposits and withdrawals can be conducted through Post Office branches.

The site would benefit from easier and quicker navigation between the main bank site and related activities – such as the InsureDirect service.

### DETAILS

★★

**CONTACT** [www.lloydstsb.co.uk](http://www.lloydstsb.co.uk)

**PROS** Site is smart and interest rate for loans to students is good

**CONS** Most products are uncompetitive

**OVERALL** If Lloyds-TSB is to succeed on the web then it needs to improve its offering



# Nationwide



Football Now website ([www.footballnow.co.uk](http://www.footballnow.co.uk)) which has links to Nationwide's web pages. We found Nationwide's website a touch too busy in design, but on the whole it's reasonably well organised and effective. It also offers an extremely good interest rate, at 7.25 per cent on its Internet-accessed e-savings account, even on balances as small as £1.

**BUILDING SOCIETIES** are unfashionable, but having a chief executive who is a former IT director has paid dividends for Nationwide. It claims to have the most heavily visited financial services website, thanks to its sponsorship of the England football team and the Football League; it's hosting the very successful

Interest on current accounts is not so good, at 1.45 to 2.75 per cent according to the balance. Mortgage rates are competitive at 7.7 per cent on the standard variable rate or between 5.69 and 6.44 per cent on the fixed rate.

There is also an online house valuation service and the building society promotes insurance products on its site, though these are sold over the phone, not the web. Personal loans are available with interest rates from 8.5 per cent, where secured, rising to a top rate of 16.7 per cent for unsecured loans of less than £3,000. Nationwide also offers customers a subscription-free Internet service.

**DETAILS**  
★★★★  
**CONTACT** [www.nationwide.co.uk](http://www.nationwide.co.uk)  
**PROS** Some products are excellent  
**CONS** Some products are not  
**OVERALL** Proves that you can be a traditional business and adapt to the web

# NatWest



**BEFORE ITS PURCHASE** by the Royal Bank of Scotland, NatWest's website was about as primitive as a corporate's site could be. But RBS has begun galvanising the old bank into the new virtual world. It's not all there yet, but at least it now looks good. Particularly impressive is the quality of its navigation system.

calculation facility. We now have to wait for evidence that RBS can turn round the quality of NatWest's products, too. Interest rates on current accounts are, like the other major banks, just 0.1 per cent. However, NatWest has now launched e-savings accounts, which pay

interest at a reasonable 4.95 per cent on balances up to £10,000, rising to 5.95 per cent for sums over £250,000. Overdraft rates are 16.06 per cent or 18.38 per cent, or 7.5 per cent for students. The interest rates on loans range from 9.9 to 20.9 per cent, according to the size of loan. The standard variable rate on mortgages is 7.74 per cent. You can also do online share dealing from NatWest's website.

**DETAILS**  
★★★  
**CONTACT** [www.natwest.com](http://www.natwest.com)  
**PROS** Website looks good and is easy to navigate  
**CONS** Some products need radical surgery  
**OVERALL** Improving, but needs more work

# Newcastle Building Society

Balance	Annual		Monthly	
	Gross / AER %	Gross %	Gross %	AER %
£1,000 - £9,999	6.10	5.95	5.95	6.11
£10,000 - £99,999	6.20	6.05	6.05	6.24

Newcastle Building Society rates are variable. AER stands for Annual Equivalent Rate and is a calculated rate which indicates what the interest would be if interest was paid and compounded in an account basis. Interest will be paid after deduction of income tax at the appropriate rate (currently 20%) or subject to the relevant certification rules.

The account also offers the ability to transfer funds to and from your nominated bank or building society account, providing you have sufficient cleared funds in your account. You should check with your nominated bank/building society that they will accept a Direct Debit payment request originated by the Newcastle Building Society.

**THIS IS A BASIC** website that will win no design awards. However, the society runs an Internet-only instant access savings account, Newcastle NetSavings, from the site, which pays a competitive 6.1 per cent on balances from £1,000 to £10,000, or 6.6 per cent on larger

deposits – this compares exceptionally well with the non-net instant access savings account, interest on which peaks at 3.85 per cent. It is more attractive than the society's Nova ISA, which pays 5.9 per cent. Only the NetSavings account is a genuine Internet-based facility, but you can contact the society by email about any of its products. This service has been recognised in a recent survey as one of the most efficient in the financial sector. Mortgage rates are good at 7.3 per cent. Quotes for motor and household insurance can be requested online. The Society's Platinum credit card has no

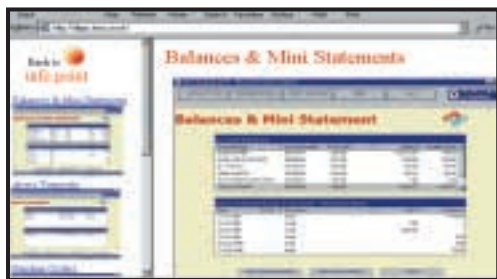
annual fee, charges interest at 14.9 per cent and comes with a chequebook. This may be a useful way to use one of the various high-interest instant access savings accounts on offer and survive without a current account. Personal loans are available at a rate of 9.9 per cent. But the society does need to invest in improving the website and providing more online functions.

**DETAILS**  
★★  
**CONTACT** [www.newcastle.co.uk](http://www.newcastle.co.uk)  
**PROS** Attractive savings rate and chequebook attached to credit card  
**CONS** Website has few functions and poor design  
**OVERALL** Not bad, given the society's small size, but needs some improvement





## Royal Bank of Scotland



**THIS IS A VERY** impressive, attractive website with good navigation. RBS has recently upgraded the services available for current account management, to include bill payment, payment transfers, setting up or cancelling standing orders and cancelling direct debits.

Unfortunately the interest paid on its

current accounts is uncompetitive – at 0.1 per cent on basic current accounts, 1.5 per cent on top-tier accounts and three per cent on student accounts.

The new Direct Saver instant access account is competitive, though, at five per cent on sums under £5,000, rising to six per cent with deposits over £50,000 – a

minimum of £50 is needed to open an account. There is also a lower interest loan, starting at 7.5 per cent, for those applying online, and the bank promises a decision in principle in seconds.

However, the RBS does still need to increase its online functionality to compete with the Internet banks –

enabling credit cards and mortgages to be applied for over the web, for instance.

On the plus side, there is an excellent A-Z guide of products, which explains in some detail all the products offered by the bank and the costs and benefits.

Having recently joined the Big Four of UK banking, the RBS has a wonderful opportunity to become the market leader in Internet banking.

### DETAILS

★★★★★

**CONTACT** [www.rbs.co.uk](http://www.rbs.co.uk)

**PROS** Excellent website and good online savings rates

**CONS** Current account needs to pay decent interest

**OVERALL** RBS is going places with this excellent site

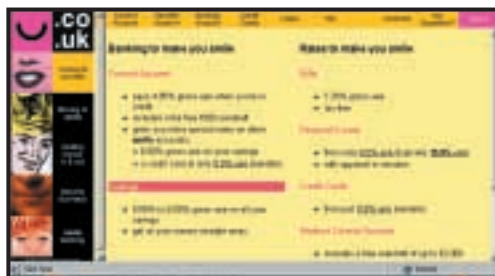
## Smile

### SMILE IS THE INTERNET

operation from The Co-operative Bank. The site is so colourful that it comes across as being garish, but it has been widely praised for its high-quality navigation system and the excellence of its products.

The site is easy to use and pays interest at 4.85 per cent on current accounts, six per cent on savings and 7.25 per cent on a mini-cash ISA – no matter how small the balances. The special student current accounts pay 4.85 per cent on balances, but also come with an interest and charges-free overdraft facility that rises to £2,000 by the last year of university.

A credit card is available online



which charges a good 9.9 per cent APR. Interest on personal loans starts at 9.5 per cent, but most loans cost 15.9 per cent. The bank promises rates are long-term and sustainable, not just there as loss leaders to draw in customers.

There is an online demonstration of how to manage your account – and full

online functionality, including control over direct debits and standing orders; transfers to other accounts including those held with any other bank; requests for bank statements; bill payment; cancellation of bank card and request for replacement; foreign currency ordering; change of PIN number and personal contact details.

This is how an online banking operation should be.

### DETAILS

★★★★★

**CONTACT** [www.smile.co.uk](http://www.smile.co.uk)

**PROS** Excellent website and products

**CONS** Colour scheme might give you a headache

**OVERALL** Smile shows how Internet banking should be done and is currently a market leader



## Tesco



**TESCO IS CONSTANTLY** reinventing itself, and its online banking service is part of that process. The banking is conducted in Tesco's name by the Royal Bank of Scotland – extending the principle of own-branded products from baked beans to banking.

Tesco's website is smart, efficient and seamless. You can move quickly and

easily from ordering supermarket shopping for home delivery to its personal finance site, which contains the online banking service. The Instant Access Savings and Clubcard Plus accounts can be accessed over the Internet, with balances checked and money transferred to

other accounts.

Interest rates on the instant access savings accounts range from 4.85 per cent to 5.75 per cent, according to the size of balance. Five-year loans of £15,000 to £25,000 are available at 8.8 per cent interest; other loans are charged at 9.9 per cent. Applications for loans can be made over the Internet.

Tesco also issues Visa cards, which charge interest at the exceptionally good introductory rate of 4.9 per cent, before rising to the less attractive rate of 15.9 per cent from April 2001.

Other products sold via Tesco's personal finance pages include an ISA, bonds and insurance, while there is also an online mortgage brokerage run for Tesco by the respected John Charcol Brokers, including offers of special Tesco and Charcol mortgage deals.

### DETAILS

★★★★★

**CONTACT** [www.tesco.com](http://www.tesco.com)

**PROS** Easy to use; wide range of services

**CONS** Graphics are rather naff

**OVERALL** Strong site, helping to build Tesco as a multi-sector retailer



## Virgin



**VIRGINONE'S WEBSITE** is attractive, easy to navigate and explains a complex product well – a bank account that acts as a current account plus mortgage loan (the flexible mortgage).  
Rather than earn interest on current

and savings accounts – a lower interest rate than you pay on your mortgage – you roll the products together. You can pay off the home loan early and save thousands of pounds over the years.

The downside is that these accounts are no good for people without strong financial discipline. The risk is that people will take advantage of comparatively cheap borrowing facilities (7.1 to 7.95 per cent, according to the proportion of the home's value you are borrowing) to borrow too much, threatening the mortgage repayment. But it is a good product when in the right hands as it helps avoid

running up high interest bills on credit cards. (However, if you run up large bills on your credit card, this account is probably not for you anyway.)

Woolwich offers the same type of account at the lower interest rate of 6.75 per cent. The accounts are administered for Virgin by the Royal Bank of Scotland. Insurance and pensions products can be bought from the sister VirginDirect website.

### DETAILS

★★★★

**CONTACT** [www.virginone.co.uk](http://www.virginone.co.uk)  
[www.virginmoney.com](http://www.virginmoney.com)

**PROS** Pleasant and well-designed website  
**CONS** Too many photos of Richard Branson; can buy similar products better elsewhere  
**OVERALL** Interest rates need to fall

## Woolwich

**THE WOOLWICH'S WEBSITE** is clean, attractive and functional, with a good design and easy-to-use navigation controls. The website offers not only Internet banking, but also WAP banking – Internet banking via WAP mobile phones. Woolwich even provides free WAP Vodafone mobiles to customers.

Woolwich is a pioneer of multi-channel banking – branded as Open Plan. Accounts can be accessed by Internet, interactive TV, phone or branch; there are no Internet-only accounts; and there is a common, poor, interest rate on current accounts, starting at 0.25 per cent, rising to 0.5 per



cent on balances over £5,000. Instant access savings accounts pay 4.75 per cent on balances from £50 to £25,000.

The bank also offers a flexible Open Plan Offset Mortgage, through which balances on the current or savings account are taken off the mortgage balance for calculating interest payments. Mortgage balances under the

Offset plan are 6.75 per cent, against the 7.5 per cent payable on the standard variable rate mortgages.

Woolwich offers 6.25 per cent on £500-plus in its one-year fixed-rate bond. Credit cards are offered at an introductory six-month rate of 6.9 per cent, before rising to a poor 16.9 per cent. Mortgages and loans can be applied for online.

### DETAILS

★★★★

**CONTACT** [www.woolwich.co.uk](http://www.woolwich.co.uk)

**PROS** Attractive site and customers can use phone and branches, too  
**CONS** Current account rates uncompetitive  
**OVERALL** Technically it is excellent, but the bank needs to pay its customers more in return for using their money

## So what's the downside?

**T**he world of online banking is not without its share of problems. The Foundation for Information Policy Research (FIPR) recently slammed web banks for acting irresponsibly by not developing adequate security and holding customers responsible for online fraud.

This follows the arrest of three hackers who attempted to set up false accounts with online bank Egg in August and were detected by anti-fraud software. The bank claims it only lost a 'minimal' amount of money.

These events occurred just five months after the FBI swooped on a farming village in west Wales and arrested two 18-year-olds said to be involved in a £3m global Internet fraud. The FBI had been investigating the case for months after banks and businesses in the US, Canada, Thailand and Britain were hacked into and credit card details stolen.

Even James Bond has been affected by online bank blunders. Roger Moore, who played the British secret agent in the 1970s and 1980s

recently had his Swiss bank account details published on the web. Moore and other customers at Credit Suisse had their secret account numbers and residential addresses exposed inadvertently on the bank's website.

The victims of these crimes and blunders will be glad to hear that home secretary Jack Straw has just proposed a



The FIPR has lambasted online security

£25m cash injection to set up a specialist online group of 'cybercops' who will deal with such matters.

BEN LEWIS





## Online credit cards

Fancy saving £435 easily and quickly? Well if, like eight million others, your credit card is a Barclaycard and you have a regular monthly debt of £5,000, then you could save £435 by moving to an Egg credit card for six months. Balances transferred to the Internet bank's Egg credit card from an existing card earn just 2.5 per cent interest for the first half year. This compares with the heavy 19.9 per cent interest rate levied by Barclays. And there is no interest charged on items bought in that introductory period.

After six months you might want to change again, as Egg's credit card interest rate jumps to 11.9 per cent – not the most competitive on the market.

A similar situation applies with Capital One's Premier Visa card, which was offering interest-free deals for six months on new spending – but not transferred balances – at the time of going to press. However, these deals change very quickly. For the latest information on the best credit card interest rates visit the

Moneyfacts website, [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk).

Too many of these highly attractive introductory offers turn sour after the honeymoon. Capital One, for instance, charges a rather high 12.9 per cent when the six months are over. Even worse, the RBS Advanta card offers a very good 2.9 per cent until June 2001, but then jumps to an excessive 17.9 per cent. The online Marbles card ([www.marbles.com](http://www.marbles.com)) charges 4.5 per cent on transferred balances for six months, before rising to a 'competitive' (but less than brilliant) 15.9 per cent.

One of the best ongoing deals available is from the Internet-only bank, Cahoot (owned by Abbey National), which is giving new customers a five per cent cashback on transferred balances. So that £5,000 moving from Barclaycard to Cahoot will earn its new owner some £250. Cahoot's interest rates are a very reasonable eight per cent, for low-risk customers. This is one of the best standard rates on the market, though not the

very best. Northern Rock offers a credit card attached to some of its mortgage products, which brings its credit card interest rate down to a mere 6.99 per cent.

But interest rates are not the only consideration. If you are able to treat your credit card as a charge card – paying off the balance in full each month – there are other factors that might guide you. Barclays, for instance, is to copy Egg by launching an ambitious online shopping mall. Barclaycard is already Europe's largest credit card issuer, but its credit card site has just 300,000 users – less than four per cent of its customer base. The bank hopes to boost this to half a million regular visitors through the online shopping mall, which might eventually accommodate as many as 350 retailers and five million products.

And Gomez, a US publisher of online consumer guides, has recently produced league tables of the nine UK credit cards that can be applied for and run over the Internet. They were tested according to

ease of use, customer confidence, online support resources, relationship servicing, total cost, Internet transactions, interest rates and for shopping facilities.

The best three, in order, were Cahoot, Egg and Smile – all Internet banks – and all were consistently good for online use. Their qualities are that Cahoot is easily the cheapest card; Egg is top for Internet transactions; and Smile is the best for convenience. Egg also has the benefit of a two per cent cashback for use on its own shopping mall. Barclaycard, though, was ranked best for online support, where Cahoot and Smile were poor, while Egg failed the test for ease of use.

But credit cards come – or rather should come – with health warnings attached. Drawing cash on a credit card is expensive and cards come with a whole stream of possible hidden charges. One of these is the transaction charge for non-sterling purchases, which could be significant given both the global character of the Internet

## Table of features

CREDIT CARDS	BOOTS	CAPITAL ONE BANK	MARBLES
URL	<a href="http://www.bootsadvantage.com">www.bootsadvantage.com</a>	<a href="http://www.capitalone.com">www.capitalone.com</a>	<a href="http://www.marbles.com">www.marbles.com</a>
Card type	Advantage Visa	Premier Visa	Mastercard/Visa
Introductory rate (monthly) (per cent)	0	0	0.37
Annual percentage rate (per cent)	0	0	4.5
Until	First 6 months	First 6 months	First 6 months
Standard rate (monthly) (per cent)	0.87	1.02	1.24
Annual percentage rate (per cent)	10.9	12.9	15.9
Interest-free period	45 days	54 days	52 days
Fee	Nil	Nil	Nil
INTERNET CREDIT CARDS	BOOTS	CAHOOT	EGG
URL	<a href="http://www.bootsadvantage.com">www.bootsadvantage.com</a>	<a href="http://www.cahoot.com">www.cahoot.com</a>	<a href="http://www.egg.com">www.egg.com</a>
Card type	Advantage Visa	Visa	Visa
Introductory rate (monthly) (per cent)	0	N/A	0
Annual percentage rate (per cent)	0	N/A	0
Until	First 6 months	N/A	First 6 months
Standard rate (monthly) (per cent)	0.87	0.64	0.94
Annual percentage rate (per cent)	10.9	8*	11.9
Interest-free period	45 days	46 days	45 days
Fee	Nil	Nil	Nil

\* Low risk rates quoted and guaranteed until 30.06.01; APR dependent on credit rating; three options available per account.



and the UK's resistance to euro membership. Marbles charges a 2.75 per cent 'administration charge' for non-sterling transactions as does Smile: Egg charges two per cent and Cahoot just 1.25 per cent.

There is also a downside to dealing with a virtual bank. Egg expects to communicate by email and telephone – it charges £2 for each paper statement and 'non-standard services' will be charged. It also promises to charge customers the cost of chasing unpaid bills as well as a £20 charge for paying late or exceeding your limit. There is also a £2 fee for receiving payments to clear credit card balances other than by direct debit.

An area that causes considerable anxiety is security. There is a growing level of credit card fraud, both through the physical copying of cards for use in high-street shops and restaurants, as well as with the fraudulent use of card details for phone and online transactions. Marbles has a strong guarantee published on its website that its customers in no circumstances will be liable for

any fraudulent use of their cards on the Internet. The exception to Marbles' acceptance of liability is where the customer knows of its fraudulent use, or has allowed someone else to use their card.

Following strong criticism of Egg's liability policy in a recent report from the Foundation for Information Policy Research, the online bank has now made its position clearer regarding customers' liability – there is none for the fraudulent use of their cards by others, and that includes (contrary to the fine print of its contract) where cards are stolen and used before the customer notifies the bank. Cahoot similarly commits itself to fully accepting liability for fraudulent card use. The exception here is with Smile, which reserves the right to pass on the first £50 of any losses.

But this in no means the end of the story. We can expect enormous efforts by the banks to sort out the security problems that are holding back the growth of ecommerce. It's a shame they didn't start this job rather earlier.

*Cahoot offers one of the best deals – five per cent cashback*



*Egg is listed as one of the best by Gomez, but failed the ease of use test*

*Marbles customers will not be liable for fraudulent use of their cards*



*Royal Bank of Scotland's 2.9 per cent deal ends in June*

NATIONWIDE BS		RBS ADVANTA		TESCO	
<a href="http://www.nationwide.co.uk">www.nationwide.co.uk</a>		<a href="http://www.rbs.co.uk">www.rbs.co.uk</a>		<a href="http://www.tesco.co.uk">www.tesco.co.uk</a>	
Visa		Mastercard/Visa		Visa	
0.29		2.24		0.34	
3.5		2.9		4.9	
First 6 months		1.6.01		1.4.01	
1.14		1.39		1.24	
14.6		17.9		15.9	
56 days		56 days		56 days	
Nil		Nil		Nil	
MARBLÉS		NATIONWIDE BS		SMILE	
<a href="http://www.marbles.com">www.marbles.com</a>		<a href="http://www.nationwide.co.uk">www.nationwide.co.uk</a>		<a href="http://www.smile.co.uk">www.smile.co.uk</a>	
Mastercard/Visa		Visa		Visa	
0.37		0.29		N/A	
4.5		3.5		N/A	
First 6 months		First 6 months		N/A	
1.24		1.14		1.02	
15.9		14.6		12.9	
52 days		56 days		46 days	
Nil		Nil		Nil	

Figures compiled on 15.11.00





# Editor's Choice

If you're looking to open an online bank account, make sure you know what facilities you want. Some banks simply offer an online version of the traditional high-street bank, whereas others have gone further and really make use of the Internet. Some offer better rates of interest for both accounts and credit cards. Some sites are imaginative and fast – others are plain slow and dull.

## The winners

Our **Editor's Choice** award goes to **Cahoot** for its matching of style with substance. It has one of the best Internet sites available in any field of commerce. It features a series of arresting images together with an innovative design that is easy on the eye, simple and allows effective navigation of the site.

The web pages complement the ideas behind Cahoot – that it is different and rewards its users. This message is illustrated, too, by the bold emphasis on the extremely attractive products – when logging on to the site, Cahoot uses about a quarter of the screen to shout 7.1 per cent (interest on current account balances over £5,000) at the viewer. Quite simply, Cahoot's products are – taken together – the best available, either on the net or off it. High interest rates for savers are allied to good-quality services.

With the eight per cent interest rate on its credit card, Cahoot comes out best in this market, too (at least when ignoring low interest rate introductory

offers). And then there is the five per cent cashback on credit card balance transfers. The £250 interest-free overdraft facility is yet another plus.

All this comes as a bit of a shock to bank watchers. Cahoot's parent is Abbey National, which has never had much of a reputation for innovation. What Abbey has illustrated here is that established and largely traditional businesses can see off the new start-up dot coms. There is also a facility for automatic notification of account information either by email or text message to a mobile. Cahoot is about as good as it gets.

Our first **Highly Commended** award goes to **Egg**. It is without question the best of dot com banks. Initially started by the Prudential as a telephone bank, the higher than expected pull of the Internet among customers has pushed it into becoming an Internet bank. If anything, it is more ambitious than most of its competitors. Although, at the time of going to press, Egg had not yet launched its current account, it did have a very advanced shopping mall attached to the bank's website.

Several years ago, when the Internet was in its infancy, both Barclays and NatWest attempted to host online shopping malls, without success. The idea seemed to die, and banks were pushed back to their original roles. Egg has changed that. There is, after all, a way in which banks can be online hosts to retailers and earn income from the

guests. The integration of shopping with banking is illustrated by Egg's beneficial two per cent cashback on expenditure in the shopping mall attached to Egg's website when you use the bank's credit card. There are 270 retailers operating from Egg's online shopping mall.

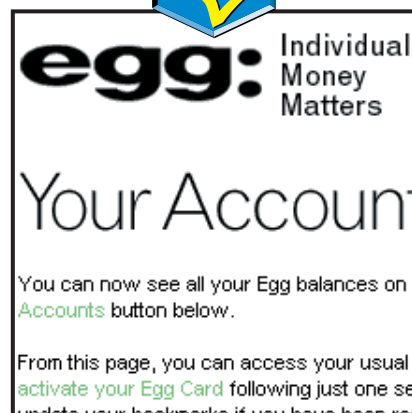
Egg's products are excellent. Interest rates on savings, and interest charged on credit cards, are extremely competitive. Mortgages, too, are well priced, as is insurance. And the web design is smart and focuses attention on Egg's range of excellent products while producing an uncluttered and relaxed feel to the site.

A **Highly Commended** award also goes to the third of the market-leading Internet banks, **Smile**. Like Cahoot it is a 'concept' site, focusing on making the customer happy. With this in mind the screen is dominated by a range of smiling faces, from Marilyn Monroe's to that of a soft toy doll. It scores very highly on functionality and ease of navigation and the products are excellent – with great interest rates. Smile is a good instance of a small bank – the Co-op – using the Internet to compete more effectively against the bigger banks. It is currently signing up nearly 20,000 new customers a month.

Smile's online accounts management function is one of the simplest, smartest and most comprehensive of all the banks. The website has deservedly and consistently won awards and positive reviews.



*Cahoot's site has an innovative design and the bank offers some of the best products around, including an eight per cent interest rate on its credit card*



*Egg is the best of the purely dot com banks and it also has a shopping mall attached to its website where you can shop 'til you drop among 270 retailers*



*Smile, which is signing up 20,000 new customers a month, has good products and its website has good functionality and is easy to navigate*