

# 6 Things To Look For From Your Online Bank

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Forbes

Updated: Dec 13, 2020, 11:32pm

Online banking is one of the biggest trends in the financial services industry—and not just the usual “online banking” services of traditional banks that let you access your account information online.

If you’re looking for an online banking relationship, there are several different categories and definitions that fall under this umbrella, including:

- Online-only banks or digital banks that offer conventional banking products and services, but in an online format
- Fintech startups, also called challenger banks or “neobanks,” that are offering financial services in innovative new ways for a tech-savvy consumer audience

Some online banks offer unique financial management tools—many in the form of apps—that provide fun new ways to help you save money or handle your monthly budget. Other online banks don’t offer fancy bells and whistles, but will give you a better place to park your savings—that is, they pay higher APYs.

Depending on your financial needs and your banking goals, there are various online bank solutions that can help you deposit your paycheck, access your cash, save money, borrow money and invest for the future.

Before you sign up with an online bank, consider this list of key features to look for in a financial services company. Many of the same things you would want in a brick-and-mortar bank should also be on your checklist when evaluating online banks.

## **1. FDIC Insurance**

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The Federal Deposit Insurance Corporation (FDIC) helps insure people's deposit accounts (checking, savings, money market accounts and CDs) against bank failure, protecting you for up to \$250,000 per depositor, per ownership category, in FDIC member institutions.

Banks and savings associations are covered by the FDIC; credit unions have similar protection provided by the NCUA. Most online banks are FDIC insured and, if so, they will prominently feature this information on their websites ("Member FDIC"). But before you deposit money, double-check the fine print to make sure your online bank account is protected by the FDIC by using its BankFind tool. It is your responsibility to make sure your bank is FDIC insured.

## **2. Lots of Fee-Free ATMs**

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Everyone hates paying ATM fees. But even if you're banking with an online bank, that doesn't mean you should have to go without cash. Many of the best online banks offer access to extensive networks of ATMs, often without charging you ATM fees for getting cash out of your account. For example, Ally Bank offers access to 55,000 Allpoint ATMs, and Chime offers access to a network of more than 38,000 fee-free ATMs.

Other online banks may not offer any ATM access, especially if your account is an online savings account. For example, American Express Personal Savings does not provide ATM cards or debit cards. Think carefully about your goals for using your online bank and decide which features are most important to you. Do you want to be able to use your online bank account for ongoing expenses and accessing cash, or do you just want a place to put your savings to earn a higher APY?

## **3. High-Yield Savings Accounts**

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Online banks do not have the infrastructure and overhead costs of conventional brick-and-mortar banks. As a result, online savings accounts typically can afford to offer higher yields on cash savings than brick-and-mortar banks. For example, as of December 2020, some of the best online savings accounts were offering APY rates ranging from 0.40% to 0.81% APY.

Be sure to shop around before choosing an online savings account. Not all online banks can offer the same features for your account. For example, if you want to have an ATM or debit card for your account, some of the highest-yielding accounts may not offer that option.

Also make sure you understand the rules and requirements for your account in order to qualify for the best APY rate. Some high-yield savings accounts will require a higher minimum deposit to open the account, an ongoing automatic monthly deposit to be made into the account or a minimum balance to be maintained in the account.

#### **4. Multiple Banking Products**

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Many people have specific financial goals that make them want to get an online bank account, such as to earn a higher rate on their savings accounts. If you just want to focus on one aspect of online banking, and leave the rest of your money in a conventional brick-and-mortar bank, that's fine.

But many online banks are offering a wider variety of options for banking products and services. Don't assume that online banking is limited to savings accounts. Some of the best online banks are expanding their offerings to include checking accounts, ATM or debit cards, certificates of deposit, money market accounts, credit cards, currency transactions, loans and other financial services.

#### **5. Helpful Financial Management Tools**

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One of the major selling points of fintech apps and online banks is that they tend to offer innovative tools and features to help people manage their money. There are several money-saving fintech apps, including round-up apps, that offer specific ways to help their users save more money, such as:

- Acorns. This savings app rounds up your spare change from everyday purchases and then invests that money in low-cost index funds. There are a variety of savings and investing programs available for monthly fees of as little as \$1 per month.
- Chime. This mobile banking app offers two automatic savings features: Round Up (where everyday purchases get rounded up to the nearest dollar, with the spare change deposited into your Chime savings account) and Save When I Get Paid (members can sign up to automatically deposit 10% of their paycheck into savings).
- Qapital. This app helps you save for specific goals, such as a vacation or a new car, based on your own customizable rules based on your behavioral motivators. You can use Qapital to “round up” from everyday purchases or create a personal savings rule such as “save a certain amount of money every time you run a mile.”
- Digit. This app lets you “save money without thinking about it” by using complex algorithms to analyze your spending patterns throughout the month and automatically save the perfect amount each day. You can use Digit to set savings goals or pay off debt.
- Qoins. This is another round-up app that focuses on helping people get out of debt faster by sending automated extra debt payments (in addition to your regular monthly debt payments), with a focus on credit card and student loan debt.

Many of these fintech apps also offer online banking services such as debit cards and checking accounts, or are gradually introducing new banking services as they grow and build their customer base. For example, there is an app called “Dave” (tagline: Banking for humans™) that started out offering a highly specific service: It helps people avoid overdraft fees.

Dave’s customers sign up (for a \$1 monthly fee) to have the app monitor their checking accounts and, if they seem to be on the verge of overdrawing their account, the app advances \$75 to fill the gap.

But Dave isn’t stopping there. The company recently started offering banking services of its own, including a no-minimum checking account that charges no overdraft fees. You might discover that some fun, quirky fintech app that you first downloaded to help solve a particular financial problem is gradually becoming a full-service online bank.

The evolution of fintech apps like Dave is an example of how, in the world of online banking, you don't have to go to the bank; sometimes the bank comes to you.

## **6. Investment Help**

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Another form of online financial service that has become more prevalent in recent years is online investment management, also known as robo-advisors. Companies like Betterment and Wealthfront use AI technology (that's where the "robo" part comes in) to help manage clients' investments and help people invest in a balanced portfolio of stocks and bonds to suit their financial goals and risk tolerance.

You can use robo-advisors to help save and invest for retirement or to get better returns on your short-term savings than you could get from a conventional bank.

Some robo-advisors have also started to offer savings accounts, which can (depending on the company and the type of account) be FDIC insured and can allow you to invest in low-risk assets like investment-grade corporate bonds that tend to pay a higher yield than typical online savings accounts.

Of course, be sure to read the fine print, clarify your investment goals and understand your investment risk tolerance and time horizon before signing up for any investment management plan. But if you're feeling frustrated with low-yielding savings accounts or high investment management fees, and you want to try something new, robo-advisors might be a good solution to help you manage your investments with the power of technology.

The world of online banking is changing fast, and the boundaries between fintech apps and full service banks are blurring. The good news for consumers is: You have more choices than ever before and more companies are competing for your banking business. This may mean using an app to save money on everyday purchases or prevent overdrafts, or signing up for a more elaborate financial management platform that can help you pay bills, save for the future and invest in stocks and bonds.

Online banking and fintech apps are becoming a bigger part of life for millions of Americans. As always, no matter what you choose for your online bank services, make sure to read the fine

print, understand the possible fees, limits and risks and try to make a well-informed decision to align with your overall financial goals.

Source: <https://www.forbes.com/advisor/banking/things-to-look-for-from-your-online-bank/#574975182cfa>