



# **Preferred & Future Technologies**

**How to Outpace Industry Evolution**

by

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## **Overview**

Benjamin Franklin said: “When you’re finished changing, you’re finished.” While he was likely speaking about individuals, his message can be easily applied to organizations and businesses. Without transformation, innovation and continued prosperity are greatly diminished, if not lost.

Among the variables required in a winning business model is technology; however, this one word “technology” can take a conversation in countless directions. On a personal level the conversation might lean toward the latest cell phone applications, pixilation of a digital camera image or clarity of a flat screen television. These common technologies are tangible and accessible.

If the conversation leans toward those technologies that can improve an organization’s bottom line, terminology often becomes cumbersome and associated price tags overwhelming. Placing costs aside, it is possible to deconstruct tech jargon so a Credit Union’s technology platform, its core operating system, is explained in such a way that transparency is achieved. With a clearer view, technologies that are missing can be discussed with benefits underscored. In the end, enhancing an existing operating system will increase member satisfaction.

The purpose of this report is to provide insight into key technologies that will ultimately benefit a Credit Union’s brand. This report represents a forward-thinking list of enhancement opportunities that will help Credit Unions increase its competitive edge. It is the progressive, adaptable Credit Union that will be ahead of the curve as the next evolution of the Financial Institution Industry comes to pass. The time for exploration and investment is now!

## **Remote Channels**

The Cambridge, Massachusetts-based Forrester Research Inc. projects that by 2011, 76 percent of wired households will bank online, 73 percent of baby boomers (born between 1946 and 1963) and 44 percent of online seniors (born in 1945 or earlier) are expected to be using virtual banking tools by that time. While Boomers’ use of online banking from 2006 to 2011 is expected to grow by 43 percent, those numbers are overshadowed by Gen X (born 1964 to 1980) and Y (born after 1981) users, at 85 percent each.

Merely offering online banking applications no longer suffices. In order to compete and keep pace with member expectation, a Credit Union must take the necessary steps and turn an online banking platform into a versatile virtual branch with e-Signatures in mind. In short, the concept is to provide a platform where, if so inclined, a member is not required to travel to a brick and mortar branch location. To understand the mindset of the progressive member, consider the requirements of a traditional branch and then apply the services offered to a virtual branch.

These include:

- Opening an account
- Loan applications
- Ability to withdraw cash
- Account transfers
- Wire transfers
- Business loans
- e-Deposits - remote capture – smart phone technology
- Ordering checks
- Obtaining a new credit/debit card
- eVaulting of members' scanned docs (RE deeds, marriage licenses, will/trusts)

Remote capture (all .jpeg files) is the ability to pay a bill by phone or email by providing a check routing and account number. This concept was forever changed and expanded upon in October of 2004 when the “Check Clearing for the 21st Century Act” was passed, giving rise to Image Replacement Documents (IRDs).

Known as a leading “sticky” service, analysts predict that approximately 40 percent of all financial institutions will offer remote capture capabilities (in some capacity) to customers during the next four years. Secure banking autonomy is the future. Think of it this way: with a virtual branch, the only service a member will not have access to is safe deposit boxes.

It is critical that the online loan application process remains near-human in terms of intelligence and interaction. Once received virtually, the application has to be checked by a qualified associate. The online loan application approach allows incoming mail to be minimized and (to the best of a Credit Union's ability) digitized without comprising validation and other security related issues.

The virtual branch concept can be applied to various scenarios and should be considered fluid so that it can be positioned for events such as a football game, an industry conference or disaster relief. In the final analysis, members must feel good, if not better, than they would in a brick and mortar branch.

## **Going Mobile**

In today's market, home-based personal computing is not the only way members prefer to conduct virtual banking business. There is a growing trend that has members utilizing PDAs and other mobile devices to facilitate their banking needs. In August 2009, the American Bankers' Association conducted a survey that found 25 percent of consumers prefer Internet banking over visiting branches (21 percent) or using ATMs (17 percent). There is a progression: teller to ATM to home banking to mobile banking.

The survey also found that online banking is not exclusive to the youngest age groups. All respondents under age 55 said Internet banking was their preferred banking method. However, consumers over age 55 still prefer to visit a bank branch or use ATMs. Overall, popularity of ATMs has declined.

The Massachusetts-based Workers' Credit Union is among the latest CUs to implement mobile banking to its 63,000 members who can now pay bills and check balances within minutes. The process is secure, passwords are never remembered on the mobile device and there is an automatic disconnect after five minutes of inactivity. Mobile banking also requires communication with members - skill-based routing via text messaging and chatting with associates.

A recent study by the TowerGroup found that that the proliferation of mobile devices and smart phones – coupled with the current financial downturn – has created an urgent opportunity for mobile banking. In fact, the report stated that 2009 will be remembered as the pivotal year in mobile banking.

By year's end, TowerGroup estimates that there will be 10 million mobile banking users. By 2013, that number will increase to 53 million users. What does this mean for financial institutions? Customers will stay with their current bank if they provide mobile services, or they will move to a competitor. The latest iPhone application allows for remote capture of checks eliminating a member's need to visit a branch location to make a deposit.

A June 2009 StrategyOne survey found that nearly two of every five (38 percent) adults said they would consider mobile banking in the next six months if it's offered by their bank or wireless carrier. These are today's numbers. Since banking is a business of the future, let us take a look at projections. According to a recent report by Gartner, when mobile commerce is considered as a whole which includes financial institutions, merchants, carriers and consumers, the number of people using mobile phones to make payments will rise from 43.1 million in 2008 to nearly 200 million by 2012.

A recent Nielsen Research report found that more than two of every five wireless subscribers (41.6 percent) – or 104.4 million people (of an approximate 308 million) – have used data services such as SMS, browsing, or downloading ringtones. Active data users will increase at a compound annual growth rate of 9.9 percent in coming years.

## **Calculation and Forecasting Tools**

According to the Javelin Strategy & Research Report "2009 Online Banking and Bill Payment Forecast," a consequence of the banking crisis has left consumers sensitive to fees and has made them prone to switching banks. The report found that after seven years of studying customer survey data, the financial institutions that are gaining market share are those that design banking products and services tailored to customers craving personal financial control.

Javelin found that many banks and credit unions have been slow to upgrade, which has created a gap in online capabilities and usage between the nation's four biggest banks – Bank of America, Citi, JPMorgan Chase and Wells Fargo. This represents a unique opportunity for progressive Credit Unions.

According to its survey, Javelin found that in 70 percent of households polled, nearly 48 million paid a bill online either through a financial institution, a biller or both. This represents an increase of six percentage points from 2008. A battle continues between banks and billers. To date, a proverbial winner has not been declared which provides Credit Unions with the opportunity to gain market share by investing in technologies that will attract progressive members.

When polled on the number one reason a consumer leaves a financial institution, nearly half responded that it was due to high fees. To this end, the ROI is on member retention rates not fees billed to members.

Along with members, senior management requires forecasting tools. These include:

- Internal interest rate risk management
- Automated financial statements
- Interactive budget and forecast software
- Internal cash management system
- Online A/P system
- Electronic interface with ADP for automated payroll postings to GL

## **Personal Finance Management**

A developing trend within the market is members demanding personal finance management tools. Vendors are ahead of this trend and are responding by developing online-banking platforms that are geared toward consolidating money-monitoring capabilities of free web sites like Mint with the money-management tools that are central to a Credit Union.

To this end, members require the ability to calculate the interest on a loan or the interest paid on a certificate over different periods of time. Similar to home-based programs such as Quicken, members must be provided the ability to organize all their accounts either from home or from a mobile device. To remain competitive, the Credit Union must allow members to personally customize their banking needs.

This can be achieved in numerous ways including sophisticated feedback tools made available to members via the virtual channel in the form of e-alerts that are directed to members' online and mobile devices. Increasingly, members are looking for alerts on balances, when checks clear and transfers are completed. They may also want to follow loan rates and request an alert when a certain percentage threshold is reached.

## **Member Contact Management and Cross Selling**

According to a survey of 120 U.S. financial institutions by the Bank Insurance and Securities Association and Truebridge Financial Marketing, data revealed that members and customers do not realize that their financial institution offers services like

investments and insurance. In addition, the survey found that front-line employees do not produce enough referrals for these services.

The survey's data also found that selling five new appointments/products per week could add \$160,000 in gross annual revenue. A Grant Thornton survey found that 80 percent of senior bank executives said they planned to increase cross-selling efforts this year.

In order to maximize business and better understand members, CUs must employ online switch kits that better facilitate cross sales. To this end, member profile and transaction analysis must be performed. This includes member purchasing patterns, savings patterns, use of merchants, type of items purchased (internally) through CU accounts, and the possibility of utilizing a database shared by other merchants within the CU database. With aggregated information, the CU can customize cross selling features to respective members.

Credit Unions must employ the necessary tools for intuitive banking so they can tap into internal data such as member reward credit cards. It is imperative to understand what members do from large investments to their smallest purchases. Combining internal and external data is essential.

With gathered information, a CU can invest in a sophisticated rewards program that tracks each member's transactions. This approach supersedes typical rewards and allows members to customize their own redemptions.

## **Management Reporting Tools**

Technologies which allow senior management the ability to see both the macro and micro view at any given time during the business day must be in place. It should be an intuitive, fluid application. A senior manager should have access to answers to a host of critical questions. For example:

- What was the largest deposit today?
- Who has the highest balance in the Credit Union?
- What was the biggest fraud that hit the Credit Union today?

In short, senior management should have access to all information in real time along with scheduled reporting. This includes employing executive reporting and business decision-making tools.

## **Information Technology Infrastructure**

To enhance and streamline communication with brick and mortar branches, data pipe technologies such as T-1 connections should be implemented to enable video conferencing and streaming video for training. This initiative would include adopting new services VoIP/Video Systems.

More and more progressive Credit Unions are incorporating virtualization. This allows, for example, one physical file server to be essentially turned into many logical servers. These servers share the same physical box but are isolated from each other. Virtualization reduces costs in various departments and allows for streamlined SAN storage (super-fast, high-capacity) for all public and private data including member account data.

## **Human Resource Optimization**

For internal departments such as Human Resources, eliminating redundancy is essential to optimizing productivity. To this end, budgeting for software that removes the need for multiple data sources is necessary. Additionally, balanced scorecard software that communicates and tracks cross-departmental goals is recommended.

Recommended Hardware and Software includes:

- Dashboard for front-line staff (complete access on one screen)
- Screen-oop for contact center
- Online service surveys tied to transactions (given out on receipts)
- Phone service survey
- Program to reimburse all surcharges (regardless of fee source)
- Webinar hosting
- Marketing advertisements at ATM touch-point
- Member problem resolution tracking

## **Security**

Without question, Credit unions must have the most enhanced and advanced security platforms available. This is a constantly revisited and updated process. This includes both external and internal threats.

According to a 2008 report by Gartner Inc., most banks have implemented stronger authentication for their online banking customers. This was due to the Federal Financial Institutions Examination Council's 2006 deadline for its Internet banking authentication guidance. A recent survey, conducted by Gartner, of 50 U.S. banks found that many were using stronger authentication measures including secret questions/answers and desktop cookies that are already circumvented by phishing and malware attacks.

A separate survey of more than 4,500 U.S. consumers found that more than half considered extra security features extremely important when it comes to online banking.

## **E-Documents: Enhancing Imaging and Cold Storage**

Credit Unions must focus on technologies that allow for advanced updates for:

- Intuitive cataloging
- Indexing

- Compiling
- Retrieval
- Printing capabilities

Images and reports must be at the fingertip, literally, of the user. Too often in today's Credit Union environment, some reports are online while some are off line, which leads to great confusion. What makes matters worse is that reports are labeled with hard to recall titles. Natural names have to replace computerized names and lingo.

In addition, the technology platform must be enhanced so there are no system response delays. This requires the data communications channels to be updated to the latest available technologies such as fiber and optic. New computing technologies at the work station level and at the server levels must also be in place, including cloud computing.

## **Comprehensive and Disaster Recovery Plan**

Today's business climate dictates that Credit Unions have in place a proven and tested disaster recovery plan so that Credit Union operations continue to function regardless of the severity of the situation.

An example of offerings could include:

- Mobile office units equipped with power, communications, computer equipment and workspaces
- Deliverable mobile branch units with teller counter, lobby area, check counter, management office and customer service desks
- Satellite voice and Internet access
- Power generators
- Computer hardware and technology – pre-configured to CU's requirements
- Emergency help desk – 24/7/365
- Annual testing simulation

## **Marketing**

According to BrassMedia, Gen Y, a demographic that never experienced Johnny Carson live on television, is driven by money and social consciousness. One out of three high school students has a credit card in his or her name. In a recent poll, 64 percent of Gen Y respondents said getting rich is their most important goal. On average they spend \$100 per week, and 82 percent of respondents whose parents have an account with a financial institution also have an account with the same institution.

While a number of issues are presented when investigating virtual banking, perhaps the most significant is cross-market user-ability. It stands to reason that what works for a 70-year-old postal retiree will not necessarily work for a 22-year-old college graduate who has recently returned home to live with mom and dad while seeking validation by continually surfing job boards and checking in with Facebook and Twitter. These online

community based forums are comprised of millions of users who discern, dissect and discuss topics ranging from their favorite bands to their worst banking experience.

Credit Unions have to have the ability to communicate with members concerning branch closures as well as promotions, the whole gamut. In many circles, e-mail is considered antiquated. As a result, segmented marketing should be deployed to address respective demographics' wants and needs.

Incorporating networking sites will help to update a Credit Union's brand. Revisiting advertising campaigns for television, cable, radio, print, outdoor and transit is critical and should take place bi-annually. Additionally, community outreach campaigns should be explored.

## **Conclusion**

When considered as a whole, the aforementioned technologies may seem overwhelming; but when taken in pieces, they become manageable. It is senior management's valued responsibility to put the pieces together creating a winning picture for a Credit Union. This includes streamlining operations by working with vendors and consultants so that processes such as automated training for employees and core system rollouts enhance member experience thus providing a Credit Union with an advantage against competing financial institutions.

Benjamin Franklin never finished changing; he was constantly looking for new and better ways of achieving his goals. With appropriately applied technologies, all Credit Unions are afforded the same opportunity.

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