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Top Ten Trends Impacting Bank Technology for 2009

"The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger - but recognize the opportunity." – John F. Kennedy at a speech in Indianapolis, Indiana – April 12, 1959

One lesson we learned in 2008 is all that is certain is uncertainty. As Wall Street and the U.S. auto industry, both in crisis, approached Washington with hat in hand and palms extended, 401Ks shrank, home foreclosures exploded, jobs were lost, and many Americans saw an economic crisis never before experienced in their lifetimes…quite a wake-up call for younger generations unfamiliar with sacrifice and hard times. Throw in two wars still being fought along with growing fears of global warming and it is easy to understand why Pepto-Bismol and Rolaids sales are up.

Despite the sour note struck at the end of 2008, such crises do present opportunities and no doubt will do so as 2009 progresses. Those who can spot the opportunity amid all the danger will prosper during the recovery that is sure to come. To help prepare for brighter days ahead, we offer ten predictions:

1. The New Three C's of Banking

Bankers will expect their technology investments to fall into categories we call the new Three C's of Banking: **1. Contain**; **2. Comply**, and **3. Compete**. To **contain** costs, bankers will look for ways that technology can streamline processes and enhance the efficiency of operations. To **comply** with new laws and regulations, bankers will invest in a wide range of compliance-related technology, helping to automate much of this burdensome process. Banks balancing the Three C's by innovating and using technology to **compete** more aggressively while better serving the customer, will emerge as winners.

While tech spending may be down in large banks, expect community banks and regional banks to spend more on technology in 2009 as they take advantage of their larger brethren's recent stumbles. Well-managed community banks can pick up

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significant runoff in employees and customers, if technology is utilized effectively to level the playing field with big banks.

As investment banks repair the distrust brought on by their failures, community banks will benefit in their role as trusted, stable, entities. The George Baileys of the world will triumph over Mr. Potter one more time as customers flock to those they trust. This influx of funds to community banks will force bankers to offer more innovative products and services. Another trend that will elevate community banks will be the generational transfer of wealth. As baby boomers retire and eventually expire, a new generation will have cash to invest. Bankers must be ready for a time-stretched, tech-savvy demographic that wants and demands more than their parents did from their banks.

2. Cloud Computing

See that cloud on your network diagram? That metaphor for the Internet? A better depiction might be a light bulb or a water faucet. Computing as a utility, cloud computing, Web 2.0, and Software as a Service (SaaS), are all terms referring to IT extending beyond the firewall and into cyberspace.

As Gartner noted in August 2008, "organizations are switching from company-owned hardware and software assets to per-use service-based models." This shift will result in positives and negatives in the IT industry. A positive for those who offer subscription-based, pay-per-use web-based applications and a negative for some traditional hardware and software providers relying on old methods of distribution.

Just as Customer Relationship Management and Human Resources Management have leveraged the cloud, expect Business Intelligence BI to be the next big app in the cloud.

Cloud computing will help companies cut IT costs as they outsource to firms operating in the cloud. Just as our grandparents and great grandparents were able to stop chopping wood for the pot belly stove with the advent of rural electrification, cloud computing will fulfill the promise of greater productivity at lower cost.

3. Simplicity and Usability Win

Financial services technology works best when the interface is simple and the application is easy to use. Just as consumers are flocking to simpler gadgets like the Nintendo Wii game console and the Flip camcorder, bank customers will gravitate to online services that are uncomplicated, stable, and time-savers. According to Deloitte, Pure Digital Technologies, the manufacturer of the Flip, grew 44,667 percent, making it the fastest growing company in Silicon Valley over the past five years -- pretty strong

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numbers for a very basic camcorder about the size of a deck of cards. More than 1.5 million have been sold since it was introduced in 2007.

The two fastest growing companies with more than $1 billion in revenues were Google and Apple, respectively. Over the past five years, Google has experienced 1,032 percent growth and closed 2007 with $16.6 billion in revenue. During that same period, Apple grew 287 percent with 2007 revenues of $24 billion. Both companies exude simplicity and elegant design.

Bankers revamping their websites and online services should look to Nintendo, Pure Digital, Google, and Apple for their inspiration in 2009.

4. Handheld Devices Come of Age

Smartphones, PDAs, and other handheld devices are now ready for prime time. Expect 2009 to see Apple and Research in Motion (RIM) continue their battle for smartphone dominance. Apple iPhone sales exceeded sales of Microsoft Windows Mobile Devices for the first time in history and grew 327.5 percent in the third quarter of 2008. Research in Motion enjoyed sales growth of 81.7 percent in the same period and introduced its BlackBerry Storm smartphone as an answer to the iPhone. Google's Android and Symbian Foundation, open-source initiatives, will chip away at Windows Mobile market share and highlight usability issues.

Expect more content to be pushed to handheld devices with more applications being written for such devices. To some, 2009 will be the year their smartphone becomes more important than their PC. For others, this has already occurred. STUDYLOGIC LLC conducted a 2008 study, commissioned by Sheraton, which showed that 85 percent of those surveyed feel their PDA allows them to spend more time out of the office. Seventy-seven percent said the PDA helps them enjoy life. Disturbing news to some, 87 percent bring their PDA into their bedroom and 35 percent would choose their PDA over their spouse.

These trends bode well for Mobile Banking. Banks jumping in front of the handheld device parade will win the love and affection of their customers who are married to their smartphone.

5. Bankers Go Green

Report archive. Image item processing. Document imaging. ACH. Internet banking. Bankers were green before green was cool. We just forgot to advertise it. For 2009, bankers will embrace green technologies including Enterprise Content Management, Remote Deposit Capture, Unified Communications, Videoconferencing, Virtualization,

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and Microsoft Sharepoint. Office Sharepoint Server will help banks better manage content, reduce travel costs, and improve communication. Sharepoint Online, a cloud-based solution, will further Sharepoint's penetration into smaller organizations.

Bankers will assess their networks and find that virtualization can save significant dollars. Recent assessments of community banks have projected hundreds of thousands and sometimes millions of dollars in savings over a five-year period, making virtualization a continued hot technology in 2009.

6. Network Infrastructure Improvements

Just as many areas of our nation's infrastructure need upgrading, bank networks built to handle the light traffic of the 1990's, will be strained to support the flow of images, streaming video, voice, and data. Switches, routers, bandwidth, and other network components will be upgraded to ensure the flow of information and improve the stability of bank networks.

In an effort to contain costs, many banks will replace their old phone systems with new IP telephony systems. These new systems will improve network utilization, consolidate circuits, and in turn, save big dollars in telecommunications costs.

Additionally, bankers will monitor the health and performance of their networks, just as they do their balance sheets, resulting in more effective network planning and more stable, safe networks.

7. Video Collaboration Tools

Along with network infrastructure improvements, bankers will see increased use of video throughout the enterprise. Video collaboration will take on many forms from high-definition displays in lobbies, conference rooms, and offices to videoconferencing via webcams and laptops, all the way up to sophisticated and expensive telepresence systems. High travel costs, a limited number of flights, and the general hassle of travel these days, will help to increase demand for such video tools as bankers tire of hopping planes or taking long drives just to meet briefly, face-to-face with employees at remote locations. Instead, bankers will use unified communications tools to conduct one-on-one or one-to-many videoconferences on the fly and inexpensively, simply by flipping opening their laptops, saving time and increasing productivity in the process.

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8. Security Gets Serious

As security breaches become more prevalent and criminals get more sophisticated, bank customers demand the best possible security measures from their banks. No banker wants to be front page news due to being the victim of a security breach. Imagine facing customers, the media, and regulators after a security incident and telling them your bank was containing costs and cutting corners regarding security, so the hackers penetrated your systems easily and stole the identities of your customers. Don’t expect much sympathy or a pat on the back for being frugal. Security is not an area in which to pinch pennies, especially in 2009.

When asked, *“What are your bank’s technology concerns”?*, bankers cited *“Managing Risk”* and *“Protecting data and infrastructure”* as their top two priorities, according to the 2008 ICBA Community Bank Technology Survey. Hiring more people and throwing them at the problem is a costly, losing proposition as it has become humanly impossible for bank personnel to protect their networks 24/7 as is required.

Bankers will continue to outsource security to trusted, third-party providers who can bring more resources to bear at a lower cost structure.

9. Customer Information Security Extends Beyond the Bank

Threats to customer information will take on a more sinister tone in 2009 as cybercrime gets organized and attacks on banks’ customers become more prevalent. Malware will continue to infect unprotected customer PCs resulting in Trojan horses that steal customer login information and allow the perpetrator to engage in criminal activity ranging from basic identity theft to initiating fraudulent ACH credits. Spearphishing, a targeted form of phishing, will grow and become a leading cause of malware infection. Bankers will grow weary of customer fraud claims, which could have been prevented with basic PC security measures, and will begin requiring minimum security thresholds for customer systems. Also, more security tokens will be issued to business customers in an effort to mitigate cybercrime.

Payment Card Industry Data Security Standards (PCI DSS) will help banks indirectly as merchants and service providers are forced to comply with the new standards to protect cardholder data and beef up their security. One of the requirements of the new version 1.2 of the PCI DSS is the sunsetting of Wired Equivalent Privacy (WEP) wireless security by June 2010. Many merchants are still hacked wirelessly from their parking lots due to no security or weak wireless security such as WEP.

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10. Regulators Add Muscle

To some, the financial crisis of 2008 was due to subprime lending, derivatives, high oil prices, high unemployment, and tumbling home prices. For others, it was simply a lack of regulatory oversight. Emboldened and empowered, expect regulators to take a "not on my watch again" attitude in 2009 as they descend on banks armed with more resources (read ammunition) than in years past.

In late 2008, the FDIC approved its 2009 operating budget, which adds 1,459 staff positions and represents an increase of more than $1 billion from 2008.

Expect insider fraud to increase as economic conditions hit close to home and some people, desperate to make their next mortgage payment or maintain their current lifestyle, resort to embezzlement, fictitious loans, and other illegal activities. Effective internal controls, a strong internal and external audit function, and using technology to detect such fraud will be imperative in 2009. Prudence and practicality aside, regulators will demand such measures.

Summary

In the words of Rudyard Kipling: "If you can keep your head when all about you / Are losing theirs…/ You'll be a Man, my son!" 2009 will certainly be a time to keep one's head and remember that the race is won through seeking wisdom, practicing persistence, and spotting opportunity when others only see danger. Those who manage information best, keep it secure, and make informed decisions regarding technology investments, will surely survive, thrive, and win the race to high performance in 2009 and beyond.

Sawyers & Jacobs LLC helps banks in four major areas: Technology Planning, Risk Management, Network Solutions, and Business Continuity. Our mission is ***to help our clients use technology securely, effectively, and profitably to better serve their customers, comply with laws and regulations, contain costs, and compete.*** To learn more, call 901.487.2575 or email jsawyers@sawyersjacobs.com .

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http://www.williammills.com/images/pdfs/bankers%20as%20buyers%202008%20final.pdf