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Top Ten Trends Impacting Bank Technology for 2011

The 70's and 80's series of Reese's TV commercials showed two people accidentally colliding and mixing snacks with one exclaiming, "You got your chocolate in my peanut butter," while the other replied, "You got your peanut butter in my chocolate." Of course, the incident ended well as they discovered the two combined for a tasty new snack and the Reese's peanut butter cup was born. A snack tragedy turned to sheer happiness. In today's banks, the "chocolate" is consumer technology and the "peanut butter" is corporate networks. The consumerization of technology continues to introduce opportunities and threats forcing bankers out of their comfort zones into some uncomfortable decisions. In 2011, bankers making these tough decisions must balance security, convenience, profitability, and productivity. To paraphrase the Reese's commercial, bankers just might find two great technology platforms that work great together.

For your bank's strategic consideration, we present 10 predictions for the new year.

Prediction # 1 - The Mobile Workforce Becomes More Demanding

Employee-owned technology will be allowed to access corporate applications. One example already taking hold is smartphones as some firms are permitting employees to use their iPhones, BlackBerrys, and Droids to integrate with corporate e-mail with the understanding that when the employee is terminated the device will be wiped. Employers will offer "smartphone allowances" in lieu of buying and maintaining bank-owned phones.

The iPad will drive a whole new range of tablet devices that become more robust and business-friendly, eventually replacing laptops.

Challenge Question: Is your bank accommodating or stifling the mobile workforce?

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Prediction #2 - Presentation Technology Gets Integrated

Board members will wonder why the technology they use at home is not present in their bank's boardroom. Across America, bank boardrooms finally get equipped with the latest presentation technology including large screen, high-def displays, LCD projectors, laptops, tablets, and wireless Internet access points. Many now have a hodgepodge of devices that don't work, lack connectivity, or have so much security applied from the local IT Dilbert that they are unusable.

Stationary, desktop PCs in boardrooms and underutilized smartboards will be thrown in the nearest dumpster. Uninformed and unskilled IT staff who say, "We can't do wireless because the regulators don't like it," will be on the unemployment line.

A wealth of technologies will combine to make meetings more interactive and effective.

Challenge Question: Is your boardroom technology up-to-date?

Prediction #3 - Security Gets Specific

No bank wants to be involved in a Wikileaks-type incident. Bankers have learned by now that effective security requires a multi-layered, multi-pronged approach that considers technology and people. Continuous security monitoring, proper system hardening, and a variety of anti-malware and policies have become fairly standardized. However, security awareness in most banks remains a hodge-podge of generic training and contrived admonishments, often not specific to banks. Such training will be replaced by bank-specific, targeted, security awareness education and related employee testing.

Opinions regarding acceptable use of technology can vary from person to person depending on age, background, and values. What is considered acceptable for some may not be acceptable for a bank. Employees must be educated on the perils and pitfalls of security threats.

Security budget dollars spent on security awareness will be the best money a bank can invest for reducing information security risk and preserving a bank's most valuable asset…customer trust.

Challenge Question: How effective and bank-specific is your bank's security awareness program?

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Prediction #4 – Mobile Banking Becomes a Game Changer and Bank Switcher

As of September 2, 2010, 82 percent of American adults owned a cell phone, BlackBerry, iPhone, or similar device (Source: Pew Internet and American Life Project). Mobile banking is a game changer and a service for which people will switch banks. It is also an excellent risk management tool, allowing customers to monitor their accounts more frequently and easily than traditional Internet banking. This is a big benefit given the current levels of cybercrime and ACH fraud. Morgan Stanley Research projects more smartphone than PC shipments in 2012, an inflection point that illustrates the power of the smartphone and its potential business impact. 4G wireless broadband will allow more robust applications to be delivered via smartphones.

There are more mobile phones than credit cards on the planet. Google's Nexus S smartphone will run the Android Gingerbread operating system and will feature near-field communication (NFC) chips which will allow users to make mobile payments directly from their smartphones without having to pull out plastic. This could be the standard that fires up the ovens of mobile commerce and brings the convenience promised for years.

Challenge Question: What is your bank's mobile banking strategy?

Prediction #5 – Social Media Changes Communications and Payments

Social media will continue to expand as bankers who started a Facebook page in 2010 will take it to the next level in 2011 and learn about the power of Yelp, YouTube, and other social media sites. Facebook will change communications as we know it as they introduce seamless messaging where users can talk to friends via SMS, chat, email, or the messages feature of Facebook, making such interaction more like a conversation than a message.

Watch out for the virtual currency, Facebook Credits, already available for purchase in the physical world at Best Buy and Wal-Mart, to be the "camel's nose under the tent" for this 500 million strong user community. Could Facebook Credits become a global currency someday? Ponder that, New World Order conspiracy theorists!

Facebook founder, Mark Zuckerberg was named *Time* magazine's "Person of the Year" for 2010 for "creating a new system of exchanging information" and "changing how we all live our lives." Facebook will continue to evolve in 2011, changing your bank in the process.

Challenge Question: Is your bank prepared to take its social media strategy to the next level?

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Prediction #6 – IT Risk Management Expands and Becomes More Complex

Banks that have been squeaking by with a very basic IT audit or a simple vulnerability scan will be required to have annual, full-scope IT Audits and Network Vulnerability Assessments that include penetration testing, internal and external vulnerability scanning, and social engineering tests. Examiners will demand more thorough reporting from firms performing these audits and assessments. Out-of-work website designers and computer jockeys masquerading as IT auditors and network security specialists will be exposed. Additionally, firms that only assess network security and do not audit banking applications such as wire transfer, ACH, online banking, core processing, imaging systems, and other key business functions will be required to up their games.

Expect Enterprise Risk Assessments to be the next regulatory mandate. Testing of the risk assessment's mitigating controls, by the bank's internal and external auditors, will be required.

Challenge Question: Is your bank getting a full-scope IT Audit and Network Vulnerability Assessment, or just a quick and dirty review?

Prediction #7 – Websites Undergo Extreme Makeovers

Bank websites, many stuck in the 1990's, will be revamped to be more interactive and functional. Superfluous stock photos of families holding hands while running through fields of daisies will be replaced by truly useful online forms, videos, and relevant information. Taking advantage of smartphone screen real estate, banks will develop mobile-optimized websites that render properly on smartphones and offer a clean interface to bank information.

Bankers will also take a harder look at their Web site hosting providers, demanding to know where their sites are really hosted and proof of adequate security, for the website and the website host. Many bankers will be surprised by the answers which will motivate more to move website hosting in-house or to more capable and secure providers.

Challenge Question: Where is your website hosted; is it secure; and do you control your content?

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Prediction #8 – Bankers Get to Know Their Technology Providers

"I KEEP six honest serving-men (They taught me all I knew); Their names are What and Why and When And How and Where and Who. I send them over land and sea, I send them east and west; But after they have worked for me, I give them all a rest."

– Rudyard Kipling

Bank technology providers won't get much rest as vendor management moves beyond the question, "Do you have a SAS 70?" for outsourced providers, and requires more due diligence, documentation, and oversight. According to the latest ICBA Community Bank Technology Survey, 50 percent of banks have in-house core processing and 50 percent are outsourced. 80 percent have been on the same core provider for five years or more. Accordingly, core provider M&A activity will slow in 2011 as the major providers take stock of their redundant offerings and begin to sunset the weaker, older, less profitable systems. System selection due diligence becomes more critical for bankers not wanting to buy a system that might be on death row.

Wise bankers will ask their providers: What services do you provide for our bank (are they critical and do you store customer information or process customer transactions)? Why should we do business with you (what value do you provide)? When does our contract expire (so it doesn't renew automatically without us reviewing our options and giving proper notification)? How do you fit into our technology strategy and how financially stable are you (can we count on you to support our strategic goals and be around long enough to see them attained)? Where are you located (P.O. Box or physical address)? Who are you (we want to meet your owners/managers, especially if they are not evident on your website)?

At the same time, banks will increase collaboration with trusted providers, demanding value but recognizing quality and rewarding loyalty.

Challenge Question: How well do you really know your technology providers?

Prediction #9 - Networks Transform Yet Become More Cost-Effective and Useful

As noted in past year's predictions, cloud computing, virtualization, wireless, and remote backup will all continue to play a strong role in banks' network design plans. Instead of blindly buying more servers and stringing more cable, network administrators will be challenged by more IT-savvy executive management to find better ways to accomplish the same goals.

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Private, public, or hybrid, cloud computing will find a niche with banks where the business case is made through proper due diligence and planning. Reasonable assurance of customer information security will be required before bankers make the leap to the cloud.

Voice and data networks have been converging for years. In 2011, who needs a physical telephone system? Services like Skype and Grasshopper combine to give one a virtual phone system. With a wireless headset or USB-attached speakerphone, one can have all the functionality of a physical telephone system without the overhead. Currently, this might only be feasible for very small organizations but as we all grow accustomed to such communications, the old desktop telephone set will go the way of the 8-track tape player.

E-mail is passé to the younger generation as they move to other methods of communication such as texting. Adults who text send and receive about 10 texts and five voice calls each day. But, teens who text send and receive about 50 texts each day. Services like GroupMe will allow people to send group texts and reach many people at once.

For 2011, successful bankers will take a fresh look at their networks' correlation to productivity and profitability.

Challenge Question: Is your network ready to be re-designed?

Prediction #10 – Bank Failures Plateau Leading to Increased IT Spending

Despite pessimistic prognosticators' predictions of another significant wave of bank failures, we believe bank failures reached a plateau in 2010 and brighter days lie ahead. The FDIC will turn its focus to implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Regulators and bankers will collaborate to save troubled institutions through structured acquisitions. Clearly, some struggling banks will fail in 2011 but not at the rate we saw in 2009 and 2010, and nowhere close to the number of failures in the late 80's and early 90's which peaked at 531 failed banks in 1989 and represented a greater cost to taxpayers than the most recent crisis.

The FDIC's Corporate Operating Budget for 2011 actually represents a slight decrease from the previous year. The Troubled Asset Relief Program (TARP) is now expected to cost only a fraction of original estimates, with most of that cost associated with the bailout of AIG, the auto industry, and grant programs to help avoid foreclosures. Other transactions in the program yielded a net gain of $20 billion for taxpayers…more signs that the banking industry is moving in the right direction.

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A more optimistic outlook will lead to increased IT spending in the areas of compliance, security, network infrastructure, risk management, and mobile banking to name the top five budget categories (Source: ICBA).

Challenge Question: Has your bank addressed all past regulatory examination findings and recommendations?

Summary

Many organizations live in the past, spending more time reminiscing than planning; more time wallowing in past failures or boasting of past success than thinking of future innovation. What is the culture at your bank? Which is stronger? Your memories or your dreams? After a few years of nightmares in the banking industry, it's time to dream again. We wish you a 2011 of dreams fulfilled.

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, visit www.sawyersjacobs.com, call 901.487.2575, or email jsawyers@sawyersjacobs.com .

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