SAWYERS & JACOBS LLC

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

Jimmy Sawyers
Sawyers & Jacobs LLC

Top Ten Trends Impacting Bank Technology for 2014

Taking the bank to the customer will be bankers' top objective in 2014. To accomplish this objective, bankers will require a mix of old-time personal service and new-age mobile technology.

In my early career as a community banker, one of my fondest memories was the honor of personally delivering the Christmas Club checks (beautiful red and green checks with images of holly and bells on them) to local companies' employees. Remember Christmas Club accounts? That was a big deal back then, in 1986. For those who are too young to remember, the Christmas "Club" was no club at all. This novel savings account peaked in popularity in the 1970s and offered the implied status of membership and the mental accounting that led to disciplined saving. The account was very appealing as customers' year-long savings culminated in a festive and colorful check to fund their Christmas shopping.

In the coming year, bankers will be called upon to take the bank to the customer once again, albeit in a more high-tech fashion than the red and green checks I was delivering in 1986, but with the same personal touch. To prepare bankers for this special delivery, we offer our annual top ten predictions:

Prediction #1 - Debit Makes a Comeback

Smart bankers will revisit their current debit card provider relationships and will perform the necessary due diligence to determine if their current agreements are delivering value.

With the benefit of a clearer post-Durbin Amendment view (pending Judge Leon's decision and the Fed's appeal), high debit card transaction volumes, and significant changes at Visa and MasterCard, bankers will find such due diligence has a very positive return. Clearly still one of the best sources of non-interest income, one community banker reported an 80% increase in interchange revenue after switching providers recently. The Visa-MasterCard duopoly is showing some signs of weakness as Discover and other lower cost providers move in. Debit card interchange has always

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

been a bit of a pig-in-a-poke for bankers but changes coming in 2014 will shed light on this cryptic yet growing revenue source (especially for those banks below $10 billion in total assets).

Challenge Question: Is your bank getting the most value in terms of interchange income and processing expense from its debit card provider?

Prediction #2 - Bankers Demand Relief from Third-Party Security Breaches, Stricter Oversight of Retailers, and Better Risk Mitigation Methods

History will show the Target security breach as the tipping point that led to the death of the magnetic stripe and the acceptance of more advanced, more secure payment technology. Passing payment data through the merchant terminal is old school and will have to change. The Target breach affected 1/3 of the U.S. shopping population who will now demand more secure methods of payment. Expect smart cards and chip cards to finally gain traction and become as widely used in the U.S. as they have been in Europe for years. While certainly not hack-proof, EMV (Europay, MasterCard, Visa) standards will offer improved security as more devices support it. Already in use through some processors, new mobile banking apps that allow consumers to turn their debit cards off when not in use will become more popular and will be widely used to mitigate the risk of unauthorized use.

Bankers continue to be heavily regulated regarding customer information security, yet retailers, where most of the risk exists, are allowed a free pass. Consumers and bankers are fed up with retailer and other third-party security breaches that leave them on the hook for lost funds and reputational risk, leading to demand for increased government oversight (beyond the weak and toothless Payment Card Industry Data Security Standard (PCI-DSS)) of such retailers and third parties. Always remember, “compliant” does not mean “secure.” Don’t expect Version 3.0 of the PCI-DSS, effective January 1, 2014, to be a game changer.

Bankers worried about more debit card fraud would be wise to consider that for every $100 in transactions, card fraud accounts for just 5.2 cents (Source: Nilson Report). Debit card interchange will continue to be an excellent source of non-interest income for banks.

Challenge Question: Is your bank and its customers experiencing card re-issue fatigue and do you plan to evaluate new card security methods?

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

Prediction #3 - Mobile Banking Gets More Mobile

Mobile banking will continue to evolve as bankers take the bank to the customer and see increased demand for mobile banking services via tablet computers and smartphones.

Of the current 69 million people banking online, more will turn to their TVs as online banking finally gains utility on Smart TVs which allow consumers to access banking apps from their couches.

Speech recognition and natural language understanding will bring truly mobile banking to the automobile via technologies such as the next generation of Ford SYNC® which runs on Microsoft's Windows Embedded Automotive operating system.

Wearable technology (on the wrist, head, and elsewhere) will give consumers digital access anywhere, anytime.

Challenge Question: Does your bank's mobile strategy extend past the smartphone screen?

Prediction #4 - Apple Falters and Microsoft Surges While New Devices Emerge

Long-regarded as the most innovative company in the world, Apple will be dethroned as Samsung, Google, and Microsoft out-innovate and outperform Apple by creating new devices and new applications that change the way we live, work, and bank. While Apple continues to suffer from the loss of Steve Jobs, Microsoft will prosper as a result of Steve Ballmer's retirement.

Windows 8 will continue to be a disappointment but expect Windows 9 to be better, much like Windows 7 was superior to Windows Vista.

As we predicted last year, Microsoft stumbled out of the gate with its tablet endeavors but by late 2013, the Surface Pro tablet was making inroads and being marketed and distributed more effectively. As a user, I can tell you that having a USB port and Microsoft Office on my Surface Pro tablet is wonderful and has relegated my iPad to web browsing and multimedia viewing, what it does best. It's past time for Apple to produce something new or the iPad will be left in the dust by Microsoft and Samsung. Almost half (49%) of U.S. adults ages 35-44 own a tablet computer. (Source: PewResearchCenter-Tablet Ownership 2013)

When viewed as a percentage of personal computing device sales, iPad sales were down in 2013 compared to the previous year along with desktops and notebooks.

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

Windows tablets, Android tablets, and Google Chromebooks were trending up. (Source: The NPD Group)

Challenge Question: Do your bank's mobile banking services work well on newer, rapidly evolving devices?

Prediction #5 - The Mobile Workforce Gets the Tools They Need to Succeed

Open-minded bankers will untether their employees and allow them the mobility they require to be productive. Expect more banks to implement wireless networks and less Draconian BYOD (Bring Your Own Device) policies to facilitate this positive change.

Telepresence systems that sold for $300,000 just five years ago can be had for $5,000 in 2014. Even less expensive alternatives will exist in the cloud. Bankers will no longer have an excuse not to implement high-quality, affordable videoconferencing.

Challenge Question: Can your bank's employees video call their grandmas in their senior living communities but not their colleagues at work?

Prediction #6 - Bill Pay Enjoys a Resurgence Due to the Mobile Channel

Thanks to mobile bill pay, we will see consumers migrate away from the direct biller model back to banks' bill pay offerings with all of their bill payees on one view. The ability to pay bills via one's smartphone has brought new utility to a mundane but necessary task.

This is an incredible opportunity for bankers who are prepared to capitalize on this movement and market bill pay services aggressively to secure more customers on this sticky service.

Paperless e-bill reminders from payees will increase the likelihood that consumers will pay such bills via mobile bill pay and will help bankers drive this business.

Any road warrior who has paid a bill from his/her smartphone while waiting at an airport gate, or even in the air via an in-flight wireless connection, can attest to the convenience of mobile bill pay.

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

Consumer bill payments still represent the largest share of checks written. According to the most recent Fiserv Sixth Annual Billing Household Survey, the percentage of consumers who pay bills from their mobile phone doubled in the past year. Expect that trend to continue as bankers incentivize this channel and convert consumers from paper checks to their new, improved bill pay services.

Challenge Question: Did your bank give up on marketing bill pay years ago or does your bank have a plan to seize the new bill pay opportunity?

Prediction #7 - Bankers Get Helpful Via the Online Customer Concierge

When talking with bankers about new technology and new delivery channels, they often respond with “Our customers just aren’t demanding this service.” This reminds me of what Henry Ford said about the automobile: “If I’d asked people what they wanted they would have said faster horses.” If bankers continue to wait for customers to ask for high-tech services, their banks biggest innovation might be pictures of kittens on debit cards.

In 2014, bankers will be challenged to educate customers on the benefits of new technologies and introduce new services in creative ways, not just ask customers what they want.

Expect progressive bankers to offer more direct help to customers via customer tech lounges, e-branches, and concierge services whether it’s for initial sign-up for new services or to improve the user experience with current services. Such customer education and marketing will reap big rewards.

Bankers will embrace the digital lifestyles of their customers and offer online appointment scheduling to facilitate in-person or video meetings with time-stretched people who are normally working during regular banking hours. These customers will not sit in a bank lobby reading year-old magazines while waiting for a banker to see them.

Challenge Question: Does your bank work with customers on their schedules or the bank’s schedule?

Prediction #8 - Risk Management Requires a More Sophisticated Approach

Managing risk enterprise-wide will continue to be a challenge for bankers in 2014 and beyond. Regulatory agencies will require more documented risk management efforts and will begin to enforce laws and regulations on a more uniform basis across the nation.

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

Banks' mortgage divisions, an excellent source of revenue in 2013 due to the Fed's Quantitative Easing (QE), will face more scrutiny from regulators and will be called upon to tighten up information security standards as they process a treasure trove of customer information. Balancing productivity and risk will prove a challenge for this function long ignored in most IT audits and regulatory IT examinations.

Bankers barely getting by with weak IT Audits and no Network Vulnerability Assessments will be required to engage qualified help to assess and maintain secure operations.

Enterprise Risk Management (ERM) programs will move beyond a strong recommendation from examiners or a best practice and will become a regulatory mandate.

Challenge Question: Has your bank reviewed its risk management efforts in a holistic manner to encompass the enterprise?

Prediction #9 - Bankers Co-Source and Adapt to New Compliance Requirements

Over the past few years, many bankers have found it difficult to innovate while cost-cutting. When there are no more costs to cut the business becomes unsustainable.

The old British saying, "Penny wise, pound foolish," applies to many bankers who spend more time and effort complaining about new regulations instead of adapting to change and obtaining the resources needed to succeed in a changing environment. A banker who tries to do everything in-house or does nothing at all will face the wrath of overworked employees or unhappy regulators. More bankers will step back and assess their compliance strategy and will co-source with trusted providers to comply while competing. Expect Washington to continue the positive trend of delineating community banks from larger banks and Wall Street banks.

Challenge Question: Is your bank cursing the darkness of compliance requirements or lighting a candle and adapting to a changing environment?

Prediction #10 - Next-Generation ATMs Become Viable Alternatives to Traditional Branches

Available for a few years now, 2014 will be the year that next-generation ATMs take off and enjoy widespread deployment. In all their varieties and names, video tellers, interactive tellers, smart tellers, smart ATMs, personal teller machines (PTMs), all will improve the customer experience.

Sawyers & Jacobs LLC
1085 Halle Park Circle
Suite 101
Collierville, TN 38017
Phone: (901) 487-2575
Fax: (866) 488-4933
jsawyers@sawyersjacobs.com

PTMs will allow bankers to offer more retail hours in the 7:00AM-7:00PM timeframe instead of the current 8:30AM-5:00PM at most banks, inconveniently the same hours most customers are at work. Such machines will increase efficiency as banks can centralize their employees in one location to interact via video with customers at PTMs located in retirement communities, universities, and other strategic locations.

Smart ATMs will allow bank customers to withdraw exact dollar amounts, make deposits, load prepaid cards, and perform a variety of banking tasks. Many will work wirelessly with one's smartphone to eliminate the need for a plastic card.

Challenge Question: Are next-generation ATMs part of your bank's strategic technology plan?

Summary

As we sit so snug and isolated in our modern world of 2014, I would like to take it back to the 1980s one more time and quote a true icon of that era, Rick Springfield, who reminded us that, "We all need the human touch." Today's technology allows bankers who strategically deploy it to compete effectively on the high-tech landscape but with a relationship-building and powerful human touch.

Here's to an exciting 2014 filled with incredible opportunities, new beginnings, and the strategic application of new technology to better serve customers and improve bank profitability.

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. We make banks better.*** To learn more, visit www.sawyersjacobs.com , call 901.487.2575, or email jsawyers@sawyersjacobs.com.

To view the full publication of ***Bankers as Buyers 2014***, visit: www.williammills.com