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Top Ten Trends Impacting Bank Technology for 2015

When the winds of change blow, some people build walls, and others build windmills. --- Chinese Proverb

As we look ahead to 2015, the winds of change are clearly blowing. Bankers will be called upon to build “windmills” as new technology will be needed to drive efficiency, increase productivity, and meet the demands of today’s tech-savvy customer; however, bankers will have to build walls to protect customer information, mitigate the risk of corporate account takeovers, and fight the growing number of cybersecurity threats.

To help our banker friends plan for the walls and windmills required to succeed in 2015, we offer ten predictions:

Prediction #1 – Cybersecurity Takes Center Stage

As of this writing, the Sony Pictures Entertainment corporate network had been down for six weeks straight due to the hack attributed to North Korea. Bankers have become all too familiar with corporate account takeover (CATO) incidents and data breaches at third-party processors but how will bankers react to a Sony-like breach where embarrassing emails, employee salary and healthcare information, and internal audit reports are leaked to the public? Adding to the damage, network and data destruction that could require weeks or even months to rebuild. Michael Lynton, the movie studio’s CEO put it bluntly, “They came in the house, stole everything, then burned down the house.” Would your bank survive such an incident?

Remote-access Trojans delivered by spear-phishing campaigns will remain the easiest way for intruders to penetrate bank networks.

Malicious software designed to exploit recently patched security weaknesses in Microsoft programs and third-party software such as Adobe and Java will keep bankers scrambling to enhance patch management efforts. Ransomware incidents will continue to grow as cybercriminals extort money from users with smartphones and other mobile

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devices becoming popular targets. Without the proper security measures and testing in place, banks could have intruders already inside their networks, plotting a future attack.

Those waiting for a piece of paper from the government to tell them what to do regarding cybersecurity are woefully behind and run the greatest risk of attack.

Bankers will rise to the cybersecurity challenge in 2015 and will hire qualified firms to ramp up IT Audits and conduct in-depth Network Vulnerability Assessments that include social engineering testing, vulnerability scanning, and enhanced penetration testing.

Challenge Question: Does your bank have the proper cybersecurity defenses in place and does it test them regularly?

Prediction #2 – Bankers Struggle to Harmonize the Blurred Lines of Their Digital and Physical Worlds

Many banks now exist in two dimensions, the physical world and the digital world. The brick and mortar of the physical world represented by branches tends to be out of sync with the bank's digital world of mobile apps and other online services. This dilemma is exacerbated from the customer perspective when one walks into a bank branch seeking help with a mobile deposit app only to be shooed away to a call center or online tech support site. More shudder-worthy is the branch employee's comment, "I don't use our mobile apps so I surely can't help you." Such dismissive customer service drives potentially loyal customers to the bank's competitor. More often these days that competitor is a non-bank.

As mobile apps become the predominant online banking system and preferred interface, traditional Internet banking as we know it will fade from the scene. Apps move to the desktop and exist across all screens, offering a consistent customer experience.

To put a banking spin on the Rudyard Kipling quote, "Oh East is East, and West is West, and never the twain shall meet," until bankers bridge the gap we will continue to see that, "Oh a branch is a branch, and an app is an app, and never the twain shall meet."

Challenge Question: How well does your bank coordinate its digital and physical worlds to harmonize the customer experience?

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Prediction #3 – Successful Community Banks Become Smart Community Hubs to Promote Learning, Living, Working, and Giving™

Already active in their respective communities and critical to their local economies, community bankers will use technology to establish their banks as smart community hubs and improve the quality of life for their customers. Four areas of focus will be learning, living, working, and giving.

Bankers will facilitate lifelong education and knowledge exchange by providing access to personal financial tools and education, small business coaching, security awareness, and by connecting local knowledge leaders with the next generation of bank customers.

By guiding customers through major life events and their financial implications, bankers will help them achieve their goals in their 20s, 30s, 40s, 50s, and beyond. College, first job, first car, marriage, children, homeownership, investing, and retirement planning, bankers will segment customers in these age groups and help them focus on why they work and how their financial decisions can enrich their lives.

In a recovering economy with improved prospects for job-seekers, bankers will help customers start their careers and succeed, connecting employers and potential employees. Wise bankers will not hesitate to make a microloan to finance a suit and tie. Such a seemingly small transaction could be life-changing. Further, bankers will make the bank available when customers need it, often after their normal working hours.

Connecting local causes with the right resources will further demonstrate the importance of community banks as smart community hubs. Beyond sponsoring and hosting fundraisers, these banks will focus their social media channels on giving and community enrichment.

Such learning, living, working, and giving will be made possible by using technology tools for better customer communication ranging from online scheduling systems for customer meetings to after-hours video calls to discuss financial events. Banks will increase branch traffic by making conference rooms available to local community groups and small businesses for their use or for informative seminars and education on a variety of bank-sponsored topics. Bankers will learn that keeping customers engaged is a winning strategy and technology can help with that engagement.

Challenge Question: How well does your bank promote learning, living, working, and giving in your community?

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Prediction #4 – The Branch Lives But Transforms

Branch footprints continue to shrink. The branch is not dead but it will look different in the future. New branch designs will incorporate technology and will offer a more visual customer experience from tablet computer banking to video walls, all in-branch. While tech-savvy customers rarely visit the branch, this does not mean the branch is obsolete. There are still times when customers and bankers need to meet in person.

Faced with the choice of building a $1.3 million branch or buying a $100,000 Smart ATM, many bankers will test the latter as a branch alternative. As we predicted last year, these Smart ATMs will enjoy widespread deployment and will be popular with customers.

As bankers continue to find ways to take the bank to the customer, on the customer's terms, expect e-sign efforts to take hold. Bankers will help customers complete complex transactions using better file transfer tools and sophisticated online services. Serving customers remotely will be critical. However, don't look to the sky just yet. Customers may not be ready for drone banking for quite some time (tongue firmly in cheek).

Challenge Question: Is your bank's branch network designed for the future?

Prediction #5 – Technology Startups Spark Innovation and Stifle Stagnation

Those of us who collected baseball cards in our youth will recall the mistakes we made when we opened a pack of cards and were disappointed to get a no-name rookie in the batch instead of a well-known all-star player. Because we didn't know the rookies, they got relegated to the "bad" pile, put on our bicycle spokes, or used as targets on the dart board. Big mistake, as those rookie cards are the most valuable when the player develops into a hall of famer. We often discount the unfamiliar as unworthy. We don't recognize talent and potential when it's staring us in the face.

In banking technology, just as in baseball, today's rookies are tomorrow's stars. Startups can be viewed as risky, and most are, but they also represent necessary change in an industry beset by stagnation.

2015 will be the year we see more innovation to break 14 long years of relative stagnation in banking technology. Be open-minded to new technology and be able to spot those diamonds in the rough, the talented people, improved processes, and new systems needed to lead your banks into the future. Of course, the same due diligence fundamentals apply and should be followed for any significant decision.

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Challenge Question: Are your veteran technology providers performing and delivering or is it time to consider some rookies with all-star potential?

Prediction #6 – Payments Innovations Disrupt Traditional Banking and Present Opportunities and Threats

Person-to-person payments and digital wallets will continue to evolve. Apple iPay, while not a new concept, has the critical mass to succeed due to the 800 million credit card numbers it has stored for iTunes accounts. Increased consumer use of such contactless payment systems will be the rising tide that lifts all banks' interchange revenues, especially those below $10 billion in total assets. Be sure to read the fine print in any agreement with Apple or any other third-party to avoid sharing too much of the bank's payments revenue in such new ventures.

With over 150 cryptocurrencies like BitCoin in existence, there will be a survival of the fittest and tremendous risk until the winners shake out.

An idea born in Brussels in 1991 comes closer to reality. Visa and MasterCard set a deadline of October 15, 2015, for retailers to accept EMV (EuroPay, MasterCard, Visa) chip and PIN transactions at point-of-sale (POS) terminals. The deadline is October 1, 2017, for automated fuel dispensers. Bankers will continue to upgrade their ATMs for EMV, in advance of the shifting deadlines, or will incur greater liability for fraudulent transactions.

Micropayments, typically defined as transactions less than $12.00, will gain ground. Sub-cards and sub-accounts to bank the household, or the small business and its employees, will receive proper attention from bankers who recognize this opportunity to improve checking account utility and fend off competition.

Such cards and accounts offered by non-banking providers are vampires that will suck the life out of the traditional bank payments franchise if bankers don't wake up and meet this challenge head on, listening to customer wants and offering viable, easy-to-use alternatives that work seamlessly with the customers' current bank accounts.

Challenge Question: What is your bank doing to secure the payments franchise while increasing interchange revenue?

Prediction #7 – The Cloud Gets Scrutinized But Grows as a Platform

Bankers and consumers will proceed more cautiously to the cloud as security breaches, lost data, privacy concerns, and denial-of-service attacks expose the fragility of some cloud-based platforms.

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As many celebrities found out during the Apple iCloud “hack,” private photos are not very private when not properly password-protected by the user or not secured well by the services provider. Many tech experts rightly point out that much of the so-called “hack” of the celebrity photos could have been prevented if they had simply turned off the iCloud “Photo Stream” feature which uploads photos taken with an iOS device to Apple’s iCloud servers automatically.

In addition to photos, many Apple users recently upgraded their iOS to find their private files were automatically uploaded to the cloud without their knowledge. Many began to receive other’s texts as a result of default settings for group messaging in carriers’ family plans, causing those senders privacy problems. Such default features will continue to surprise users who put blind trust in the cloud and do little due diligence.

However, due to its low-cost nature and efficient business model, cloud computing will grow in popularity and will certainly encompass more banking applications as 2015 progresses.

Challenge Question: What bank and bank customer data is stored in the cloud, and is it secure?

Prediction #8 - Risk and Regulation Change

Selected parts of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the USA PATRIOT Act will be repealed. Expect the Durbin Amendment to face much-needed scrutiny as this price control legislation is lifted.

Bankers will take a step back and assess their risk management programs to determine if they are ready for the likely threats of 2015 and beyond or are still mitigating known threats from the past 10 years, driving their cars (read banks) looking in the rearview mirror instead of out the windshield.

Regulators continue to stress the importance of Enterprise Risk Management (ERM) programs for banks of all sizes as bankers refine and focus their ERM efforts. High-performing banks implement annual Enterprise Risk Assessments and quarterly ERM monitoring and reporting, to keep their directorate informed, effectively execute their banks' strategic plans, and navigate a changing marketplace.

Challenge Question: Is your risk management program fine-tuned for 2015 or still mired in 2005?

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Prediction #9 – Wearable Technology Remains a Novelty That Presents Little Utility

I haven't worn a wristwatch in 10 years because I have a timepiece strapped to my hip in the form of my smartphone.

Early adopters of wearable technology such as Google Glass have more often been viewed as slightly creepy or attention hogs instead of high-tech trailblazers. In social interactions one does not want the other person in a position of control over him or her, possibly recording your conversation. This unwritten social rule is why certain smug users of Google Glass have earned a not-so-nice nickname that cannot be printed here. Use your imagination. It begins with "glass."

Remember the Speedpass watch? I had one of these 12 years ago and loved it. It was the precursor to technologies like Apple iPay and allowed one to wave a wristwatch, containing an imbedded radio frequency identification (RFID) chip, near a gas pump whereby the transaction would take place just as if one had dipped a credit or debit card into a card reader. Still available as a key fob, the Speedpass watch just never gained traction and never enjoyed widespread appeal.

Wearable technology will remain more popular to fitness, not financial, applications. If Dick Tracy failed to make the wrist radio cool almost 70 years ago, chances are it won't happen in 2015.

Challenge Question: Will wearable technology gain financial utility or will it remain on the fringes of society?

Prediction #10 – Technology Spending Increases

We expect bank technology spending to increase around 7% in 2015 as the economy expands and bankers leverage technology to meet growing consumer demand for more advanced services, and initiate projects to improve network infrastructures, performance, and security.

Bandwidth, software, and hardware upgrades will be top priorities as bank employees demand the tools necessary to produce and as bank customers demand more high-tech services. Systems that seemed fast and sophisticated five years ago will seem slow and antiquated in 2015. Strategic technology planning will remain a valuable exercise to maintain awareness, establish priorities, and increase the likelihood of successful tech projects. Bankers will ask for more assurance that their systems are secure and will invest in the audits, assessments, and testing necessary to gain that assurance.

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Their directors, regulators, and customers will demand such security and a proactive approach.

Challenge Question: Is your bank's technology budget aligned with the opportunities that 2015 will bring?

Summary

Arthur Burt once said, "Nothing happens until the pain of remaining the same outweighs the pain of change." Faced with more demanding customers, cybersecurity threats, and the need to run a more efficient bank, the community bank model must continue to evolve and change to meet these challenges. The pain of staying the same will be too great. In 2015, high-performing banks will use technology to effect the positive change required to compete at a higher level and with greater velocity than ever before.

Wishing you all the best for a successful year filled with exciting innovation and strategic goals achieved.

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. Making Banks Better™.*** To learn more, visit www.sawyersjacobs.com , call 901.487.2575, or email jsawyers@sawyersjacobs.com.

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