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Top Ten Trends Impacting Bank Technology for 2016

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I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel. --- Maya Angelou

How do you feel about your recent interactions as a customer? While on a speaking engagement in Atlanta early last year, I had some strong feelings about business travel. First, I avoided a major airline and flew a small airline, Southern Airways, from Memphis to Atlanta. With this niche airline, I simply arrived at the airport 20 minutes before my flight. No TSA check. No baggage fees. Just great service and an amazing customer experience. Upon arrival in Atlanta, I called a traditional cab company to take me from the small airport to my hotel. Forty-five minutes later, my cab finally arrived. Remember the first Dodge Caravan minivans with the fake wood paneling? This was my cab, a relic of the 80's.

When I gave the driver the name of the hotel, just 15 minutes from the airport, he handed me his old-school GPS so I could punch in the address for him. This trip was not off to a good start. After some other difficulties and missed turns, we finally arrived at my hotel. I vowed to try something different for the return trip as this had not been a great customer experience.

After my presentation was over the next day, I decided it was time to try Uber. I accessed the app on my smartphone and summoned a driver. Within 10 seconds, my phone was ringing as the driver let me know he was entering the hotel grounds. Sixty seconds later, a very nice, clean SUV (no wood paneling) pulled up in front of the hotel and I was off. Compare that 70-second service to the agonizing 45-minute wait I had with the cab.

The driver was friendly. The vehicle was new. I didn't have to dig for cash or ask the driver if he takes American Express as my payment information was already in the Uber system and payment was automatic without any interaction with the driver. No paper receipt was necessary as it was emailed to me. I simply hopped out of the vehicle, grabbed my bags, and I was on my way home. I was completely and permanently converted. Since then, I'll walk past a dozen cabs to get to my Uber car.

No secret to those who have been using it for years, Uber offered me an incredible customer experience coupled with up-to-date technology. Such is the key for today's banks. Winners will focus on delivering a frictionless customer experience while leveraging the latest technology to satisfy today's demanding and informed consumer.

To help bankers invest in the right technology solutions, not wood-paneled minivans, I offer ten predictions for the year ahead:

Prediction #1 – The Traditional Lending Model is Challenged

The days of customers waiting in bank lobbies, reading old magazines, and completing loan applications on paper, are over. A new breed of lenders (e.g., Lending Club, Kabbage, OnDeck, et. al.) with simple online applications and a less intimidating approach will prompt bankers to review their loan application processes and make the changes necessary to bring customers on board in a more efficient and streamlined manner while still effectively managing credit risk.

As part of this process, bankers will finally embrace Digital Transaction Management and E-sign capabilities, a game-changer that will allow customers to sign documents easily without having to visit the bank or be in the same place as their co-borrowers.

Challenge Question: How frictionless is your bank's loan application process?

Prediction #2 – Natural Language Processing (NLP) Brings Fewer Taps to Apps

Natural Language Processing (NLP) is a field of computer science, artificial intelligence, and computational linguistics concerned with the interactions between computers and humans. Bankers and their customers will feel the impact of NLP in 2016.

Tapping on one's smartphone will seem archaic soon as NLP technology matures past Apple's Siri, truly recognizes our natural speaking voice, and actually responds quickly with the right answers and actions. Google Now has done a fairly good job in this area, as has Microsoft's Cortana. Amazon's Echo (my personal favorite at home) is a great example of this technology improvement. The Echo, a sleek black cylinder that resembles a simple Bluetooth speaker, uses a multidirectional microphone to receive voice input accurately, process it quickly, then respond with incredible precision. My Echo's name is Alexa, and yes, I'm in love with her and I'm not ashamed to admit it. Isn't technology great?!

Such technology is promising for bank apps that now rely on too many finger taps. Simply asking your device, "What is my account balance?" is preferable to logging in the slow, traditional way. At what point does your mobile banking service and former touch-tone telephone banking system merge into one application?

Expect NLP and personal/virtual/digital assistants to become more integrated into our daily lives and to change the way consumers interface with your bank.

Challenge Question: Will your bank's apps work with NLP?

Prediction #3 – Disruptive Technology Flattens Our World

Freedom and access will be key words in business for 2016. Freedom to choose goods and services in an ultracompetitive and changing market filled with new entrants and non-traditional providers. Access quickly and conveniently via many devices as distribution channels allow customers to get what they buy fast.

Planning a vacation? Many people will use Airbnb instead of traditional vacation home rental firms. Need a ride? Call Uber or Lyft instead of a cab.

My Roomba vacuum, Nest thermostat, and Wemo lights have automated my home in ways previously unimagined. And, the best is yet to come.

According to comScore, the majority of online shopping now takes place on mobile devices. Online shopping has enjoyed double-digit growth, close to or above 15%, for the past five years (Source: U.S. Commerce Department). Apps that function well on any device and any screen combined with premium services, like Amazon's Prime, will drive more consumers to shop and bank online. It's no longer enough to just offer mobile banking. The mobile banking experience must be on par with consumers' other online experiences.

Challenge Question: How will disruptive technology impact your bank's business model?

Prediction #4 – EMV Fails Miserably

McDonald's generates 65% of its U.S. sales through its drive-through lane (Source: QSR Magazine). Getting paying customers through the queue is critical to such businesses. This is why EMV (Europay, MasterCard, Visa) will fail miserably in 2016 as more consumers and retailers experience the frustration of the EMV payment process, which is several seconds longer than the traditional card swipe.

Merchant terminal prompts are hard to understand. Cashiers are not trained properly and get flustered. Dipping the card is resulting in cards being left in terminals versus the swipe where cards never left consumers' hands. Getting the card orientation right for the dip is also challenging for some consumers. These simple but critical time-and-motion issues will cause consumers and merchants to reject EMV.

Certainly the chip is more secure than the magnetic stripe but most EMV transactions are not "chip and PIN" and are actually "chip and signature." When EMV was introduced in Europe 20 years ago, the first minute of a long-distance telephone call necessary to verify a transaction was $3.00, hence the reason a solution was needed that did not rely on telecommunications.   EMV might have been the right solution in Europe in 1996 but it will not work well in the U.S. in 2016.

Challenge Question: Have your bank customers expressed frustration with the EMV payment process?

Prediction #5 – Proximity Payments Evolve and are Embraced by Consumers

One of the possible benefits of the EMV card user experience being so bad is the fact that it might drive more consumers to embrace proximity payments at a much faster rate. Waving one's Apple Watch over a merchant terminal is a contactless and more efficient process than dipping a chip card into a terminal. The impatience of the average consumer will help proximity payments volumes grow.

Euromonitor International reported that mobile payments were US$670 billion in 2015 (46 markets researched) and that such payments are projected to quadruple to nearly US$2 trillion over the next five years.

Bankers should be encouraging and facilitating mobile payments as such activity will increase banks' interchange revenue while helping the consumer pay quickly and securely.

Challenge Question: Are you educating your bank's employees and customers on the benefits of proximity payments?

Prediction #6 – Cybersecurity Gets Serious as Bankers Get Educated
The word "Cybersecurity" evokes emotions not experienced in banking since the term, "Y2K." While not new to many banks that have had penetration testing, vulnerability scanning, social engineering, and other assessments of their bank's network security posture performed for the past 16 years or more, some banks are just now taking network security seriously. Board members are taking notice. Bankers are holding more business customer forums on cybersecurity preparedness. Regulators are requiring more scrutiny, testing, and audit coverage. The attention is warranted and will only increase in 2016.

IT Audits and Cybersecurity Assessments that fail to cover critical threats and vulnerabilities specific to banking will no longer be tolerated by IT examiners and banks' boards of directors. Gone are the days of bankers who "…just want a piece of paper (read report) that will satisfy the regulators." Most bankers now realize that cybersecurity is a business issue that must be addressed by engaging qualified firms to perform in-depth testing and review of their banks' systems and processes. To ignore this area is to leave the bank and its customers vulnerable to attack.

Practitioners who seek to scare and sensationalize rather than educate and help will be exposed. Are your bank's tech and risk management leaders more concerned about the unlikely incident of someone scanning the contents of their wallets using RFID technology, or are they more concerned with the next Corporate Account Takeover (CATO) event, hack, or spear phishing attack that could result in significant financial losses and tremendous reputational risk? Risk mitigation dollars are best spent on the latter, which is the most likely.

The Cybersecurity Assessment Tool published by the Federal Financial Institutions Examination Council (FFIEC) in June 2015 is a noble effort by the agencies to help bankers assess their banks' cybersecurity readiness, but the assessment falls short as it lacks specificity, does not address mitigating controls, and forces bankers to make broad assumptions without proper verification. Consequently, the assessment has confused more than it has helped and has been dead on arrival at most banks. Completing a generic risk assessment can be a waste of time and resources, plus it can create a false sense of security and the impression that a bank is prepared when it's actually vulnerable and exposed.

Bankers will get what they pay for when they foolishly use free cybersecurity risk assessments marketed by service providers. Just as a bank's board of directors would not engage a CPA firm to perform a free financial statement audit, bankers will learn that professional help in cybersecurity will require a reasonable investment to yield a reasonable return while truly mitigating cybersecurity risk.

As Warren Buffet said, "Price is what you pay. Value is what you get." Or, as my aunt put it a bit more succinctly, "Pay peanuts, get monkeys." Such is the case with engaging cybersecurity experts who understand the business of banking. One must pay for value.

Challenge Question: Is your bank investing in qualified and independent cybersecurity consulting services and solutions?

Prediction #7 – Vendor Management Moves Beyond a Check-the-Box Exercise
The banking regulatory agencies have been serious about vendor management for several years now, requiring banks to maintain significant documentation and perform vendor management risk assessments. Unfortunately, in some cases, this risk management function has become more about the amount of paper than the significance and practicality of the relationship.

As one wise banker exclaimed to me recently, "If I go to a vendor's website and I can't tell who manages or owns the company, my bank does not do business with them. I apply the same rule if their website does not list a physical street address. Those are big red flags for me. Faceless, anchorless, perhaps nomadic companies scare me."

In 2016, bankers will shine a light on vendors and require them to fully disclose important matters of ownership, location, and business practices. Those who can't or won't stand up to this scrutiny will be exposed.

Such simple vendor management efforts will help bankers avoid getting burned by weak providers who may damage the bank's reputation. As Aldo Gucci said, "The bitterness of poor quality remains long after the sweetness of low price has faded from memory."

Challenge Question: How many of your vendors do not disclose ownership or their physical address on their websites?

Prediction #8 – Computing Devices Continue to Advance While Confusing the Market

Bankers have been migrating from desktops to laptops for years, enjoying increased productivity and mobility as a result. As smartphones and tablets came onto the scene, many bankers suffered from device overload and still seek a universal device that can get work done. Some lament, "I browse the web on my tablet. I text and talk on my smartphone; but if I want to get real work done, I must use my traditional laptop."

Considering the banking environment, beware of seemingly inexpensive but high-tech devices such as Google's Chromebooks. Most bankers will find these inadequate for banking applications that might still be dependent on local resources, peripherals, and vendor-specific solutions. What might sound good may not work in your bank, even if the device is Citrix- and VMware- compatible. Test first. "Enterprise-ready" is a relative term.

Expect Microsoft's newest version of the Surface Tablet, which is finally closer to a true laptop's utility, to close the gap and offer a good solution. Combined with Microsoft Windows 10, we have found our Surface Book offers the best of both worlds. Touchscreen, tablet mobility when we're in "Clipboard Mode," and a durable, tactile keyboard plus impressive battery life for banging out reports in laptop mode.

We especially like "signing on" by simply looking at the screen which uses Windows Hello to recognize one's face and log in. Expect Microsoft to up the ante in such facial recognition software as their Project Oxford will build applications that detect emotion on one's face and tell if one is happy, sad, frustrated, angry, or experiencing other emotions. Devices will continue to evolve in awareness by knowing where we are, if we're on the move, our schedule, and again, our emotions.

Remember, tablets without Wi-Fi access in your bank are simply expensive pieces of glass. Invest in the bank's network infrastructure to truly benefit from today's advanced devices.

Challenge Question: Is your bank getting the most out of its investment in advanced computing devices?

Prediction #9 – The Tech Talent Gap Widens

We ended 2015 with a U.S. unemployment rate of 5.0 percent. Compare that to YE2009 when the unemployment rate was twice that, at 10 percent. This good news could impact bankers in a negative way as it becomes more difficult to find high-performing employees in a strong job market. Many banks already struggle to develop and retain tech talent. Accordingly, expect more banks to co-source with trusted providers to supplement in-house talent and develop bank employees.

As the exchange between the CEO and the CFO often goes: CFO: "What if we train our employees and they leave? CEO: But, what if we don't and they stay?"

In 2016, successful bankers will seek quality continuing education for employees at all levels of their organizations with special emphasis on developing top talent to lead these banks into a future where an understanding of technology as a business tool will be critical.

Challenge Question: How is your bank attracting, developing, and retaining talented employees?

Prediction #10 – Community Banks Continue to Change Lives

From age 19 to 28, I was fortunate enough to work in a community bank where I learned a lot from my colleagues and our customers. For the past 22 years, I've been honored to consult with community banks on a variety of technology and risk management issues. As I teach at several banking schools, speak to banking and technology associations, and visit bankers around the country, I continue to learn from our clients and their providers as markets change and technology progresses. One thing has remained constant in my 30-plus years in this field. I have seen how community banks change lives and help people succeed. Banking remains an honorable profession that is vital to our success as a country and as individuals. Whether financing a small business startup for a hopeful entrepreneur or a new suit for a graduating student from a meager background, community banks impact those they serve in profound and lasting ways. This I know firsthand.

In 2016, bankers will engage customers through a variety of channels including social media to highlight these success stories and continue serving their communities, and collectively…our nation.

Challenge Question: How will your bank change lives in 2016?

Summary

My customer experience with Uber made a lasting impression and drove me away from cab companies. Are your customers getting the Uber or the cab experience at your bank? Remember, customers will not remember what you said or did, but they will remember how your bank makes them feel. The right technology can improve the customer experience and make customers feel loyal, satisfied, and motivated to bring more business to your bank.

May the coming year be filled with incredible customer experiences, low cybersecurity risk, and increased mobility and productivity thanks to tech device innovations and wise technology investments.

About Sawyers & Jacobs LLC

Sawyers & Jacobs LLC helps banks in five major areas: Technology Planning, Cybersecurity, 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 sawyersjacobs.com, call 901.487.2575, or email jsawyers@sawyersjacobs.com. To view the full publication of Bankers as Buyers 2016, visit williammills.com.