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 2010

Goodbye "Downer Decade." Many people will not be celebrating the arrival of 2010 so much as saying "good riddance" to the past decade. Perhaps the Downer Decade tag is a harsh moniker but let's review: Terrorism, wars, hurricanes, tsunamis, corporate scandals, record job losses, divisive politics, pandemic influenza, steroid abuse, sex scandals, Wall Street fraud, bank failures, Ponzi schemes, Lady GaGa, reality TV, and Crocs (okay, those last three are a matter of personal opinion)…but the decade clearly had its share of bad news on a daily basis.

To paraphrase Ronald Reagan, are you really better off now than you were at the beginning of the decade? Ask your investments. $10,000 invested in the S&P 500 on January 3, 2000 was worth $7,581 as of December 8, 2009, over a 24% drop, not counting inflation. Those were the lucky investors, not the clients of Bernie Madoff or Allen Stanford. So much for "buy and hold," at least to begin the century. For the decade, even three of the bellwether tech stocks delivered subpar gains. According to Standard & Poor's Capital IQ through December 14, 2009, Dell was down 73%; Microsoft was down 48%; and EMC lost 69% for the 2000s.

We started the decade delirious over anything Internet-related. The Bloomberg U.S. Internet Index had 280 stocks on it and those fell in value by a combined $1.755 trillion in seven months following the 2000 crash. As noted in Lawrence McDonald's ***A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers***, seventy-nine of the 280 Internet stocks crashed 90 percent from their 52-week high. Investors were willing to turn a blind eye to incompetent management, zero profits, geeks who didn't understand basic business concepts, and unrealistic predictions of future success. Have we learned any lessons between the March/April 2000 tech stock crash and the September 2008-December 2009 recession? Or, do we appear to be finishing the decade much like we started it?

On a positive note, we saw innovation that gave us more web-based applications as Web 2.0 technologies, the rise of smartphones, more affordable bandwidth, mobile devices, and improved communications all made our lives easier. Clearly, technology

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has made us more connected and more productive while flattening our world in ways previously unimaginable.

We believe 2010 will see a return to sobriety and common sense but that doesn't mean it won't be full of surprises and disruptive events. Here are a few predictions to kick off the new decade along with a few challenging questions to lubricate your bank's technology planning efforts:

Prediction #1 - BlackBerry Peaks. iPhone Begins Era of Dominance.

As of April 2009, 85% of U.S. adults had a cell phone, according to the Pew Internet & American Life Project. Apple iPhone sales exceeded sales of Windows Mobile Devices for the first time in history. In 2010, Microsoft will be left in the dust of Apple as Windows Mobile dies a slow death that not even Windows Mobile 7 can avert.

Time will tell how well phones running Google's Android operating system will do against Apple, but BlackBerry-maker Research in Motion (RIM) and Pre-maker, Palm, Inc., are not keeping pace with Apple's iPhone momentum. While BlackBerry still enjoys much success and was number one on Fortune's 2009 list of fast-growing companies, we predict BlackBerry sales will pale in comparison to iPhone sales in 2010, especially once iPhones are available on carriers other than just AT&T. As of late 2009, Verizon said it was "prepared" to support the iPhone if Apple ends its exclusivity with AT&T. Also, expect Google to produce its own phones in 2010 with the Nexus One being Google's first try at cracking this competitive market.

As a former Treo-then BlackBerry-now iPhone user, I speak from experience when I say emphatically that the iPhone blows the others away, and yes…it's all about the apps! Apple now has over 100,000 iPhone apps in its App Store compared to BlackBerry with only a few thousand. As users become more invested in iPhone apps, BlackBerry will fade into the mist as just as former tech stalwarts, the Hayes modem and the Digital Equipment word processor. Disruptive technology strikes again.

USAA now allows their customers to take a picture of a check using their iPhone app, USAA Deposit@Mobile™. This is remote deposit at its most basic level and a great example of the further blending of consumer and banking technology.

Challenge Question: Does your bank have an iPhone app strategy?

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Prediction #2 – Consumer and Business Technology Continue to Merge

Broadband penetration in U.S. households helped launch Web 2.0 applications that increased use of online services and paved the way for mobile devices. Mid-decade, laptops began outselling desktops for the first time in history. Now, a variety of handheld devices is changing the way we access information. Netbook sales doubled in 2009 compared to 2008. Expect the line between notebooks and netbooks to continue to blur. By the end of 2010, as many mobile devices as PCs will be accessing the Internet. Post-2010, mobile devices will be the primary Internet access device for the majority of Americans.

Bankers may ask, "Why all the buzz over gadgets and gizmos and Web 2.0 applications? Why should we care about such toys and personal technology?" The answer is simple: *Because consumer technology is driving business technology and the two are merging to produce some handy, time-saving devices.* Bankers will ignore this trend at their peril. If your best customers have embraced the iPhone and Facebook, then the race has begun to deliver banking services and financial information via these channels. Some bankers haven't put on their running shoes yet.

Bankers should be paying attention to any consumer device that is becoming an integral part of their customers' daily lives. Even e-readers could have implications in banking as consumers turn them into everyday utilities. Expect the Barnes & Noble Nook to unseat Amazon's Kindle and the Sony Reader. That is, until the Apple Tablet is released.

Challenge Question: Why can't my bank deliver my statement on my e-reader?

Prediction # 3 - Network Upgrades Top IT Budgets

We expect tech spending to increase 3-5% in 2010 as bankers upgrade PCs and networks. Cloud computing, in both public and private forms, will continue its positive trend as more enterprise infrastructure and applications move to this platform. Virtualization continues its march as bankers realize this is not bleeding edge technology but is very practical and proven, an excellent move for increased efficiency and cost containment. Disk encryption, remote backup, and wireless will all see continued adoption.

New entrants to the market will find their niche but Microsoft remains most formidable. According to Forrester, Microsoft still dominates most categories with 2009 market share of 67% in browsers and 66% in corporate email. As of May 2009, Microsoft Windows ran on 95% of all systems. Sales of the Microsoft Office Suite accounted for 94% of office productivity suite sales in 2008. Surprisingly, even though it was released

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eight years ago, Windows XP still dominates as the enterprise operating system of choice for 79% of companies. Most companies took a pass on Vista and stuck with XP. However, the introduction of Windows 7 promises to push these companies to leapfrog Vista and install Windows 7 which has drawn positive praise for its stability and fast boot times. Windows Server 2008 will bring better security with Network Access Protection (NAP) and AppLocker. Also, Microsoft will not ignore cloud computing. Expect to see it offer more applications via the cloud.

Challenge Question: Is your bank's network performing at maximum efficiency?

Prediction #4 - Enterprise Risk Management Takes Center Stage

Regulators will expect banks to take a much more comprehensive approach to risk management. Expect to implement an Enterprise Risk Management program in 2010. Taking the lead of the COSO Enterprise Risk Management Framework, all banks, regardless of asset size, will experience a taste of Sarbanes-Oxley Act requirements whether they are publicly-traded or not. Unlike current information security, ID theft, remote deposit, IT, internal controls, or business continuity risk assessments, the Enterprise Risk Assessment will consider the entire bank, key business functions, and their related threats.

Such enterprise risk assessments will need to address the most probable threats as well as Black Swan events, those unlikely instances that have low probability but a high magnitude of impact. Regulators will view these wide-ranging risk assessments as a preventive measure to the problems of the previous decade.

Challenge Question: Does your bank have an Enterprise Risk Assessment?

Prediction #5 - Technology Planning Makes a Strong Return

With so many new technologies to evaluate, bankers will dust off their technology plans and take a fresh approach to this important exercise. As many banks adjust the sails of their organizations to catch the winds of change, bankers will want to synchronize their technology plans with their business plans. Looking ahead, bankers will set short-term (next six months), mid-term (six to 18 months), and long-term (18 months plus) goals to allocate resources, assign accountability, and tackle new technology projects.

Many bank technology plans were developed at the turn of the century and are in serious need of re-vamping. The future is too important to leave to chance. A new technology plan for a new decade is a prudent move.

Challenge Question: How fresh is your bank's technology plan?

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Prediction #6 – IT Exams Expand in Scope and Get Tougher to Pass

Remember the good old days 20 years ago when the bank's one computer was located in the computer room and every application ran on one hardware platform? IT exams were easy. Backups? Check! Source code? Check! Disaster Recovery Plan? Check! See you next year! Not anymore. IT audits and examinations must encompass systems and delivery channels never imagined 20 years ago. Auditors and examiners must be better trained and more knowledgeable on a variety of platforms. Accordingly, bankers must document controls over new areas such as Mobile Banking, Virtualization, Remote Deposit, and the plethora of web-based applications being introduced at a rapid pace.

U.S. Government spending as a percentage of GDP has been on a steady uptick since 1999 which represented a low point in the period from 1990-2009. Such spending has increased almost 13 percentage points during the 2000s. (Source: usgovernmentspending.com)

In late 2009, the FDIC Board of Directors approved a $4.0 billion budget for 2010. The 2010 operating budget represents a 55% increase from 2009. The FDIC also plans to increase staffing by 1,643 employees. All of this is in preparation for more bank failures and more supervisory activity related to troubled banks. Expect IT to get its fair share of scrutiny in 2010 as a new generation of examiners takes the field armed with ample resources.

Challenge Question: Is your bank prepared for its next IT exam?

Prediction #7 – Some Jobs Disappear and Don't Come Back

High-paying jobs that once existed are now gone forever causing many to re-invent themselves in attempts to launch new careers. Unemployment stood at 10.2 percent as of November 1, 2009, a 26-year high. Some argue that many of the jobs lost were a Darwinian but necessary re-setting of the system and that pay cuts are simply market adjustments that now have many people getting paid what the job is worth.

According to a recent McKinsey Global Institute report, 71 percent of U.S. workers hold jobs that are experiencing decreasing demand, increasing supply, or both. In 2009, the average work week of U.S. non-farm workers dropped to an all-time low of 33 hours, the lowest level on record since the U.S. Bureau of Labor Statistics began tracking it in 1964. Certainly, reduced demand for goods and services has reduced the demand for labor. Accordingly, work weeks and paychecks are both lighter.

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We've all heard the phrase "Work smarter, not harder." Let me deliver the sober news for the future. As Americans, we must all work smarter ***and harder***. Further deterioration of the Great American Work Ethic is no way to pull our nation out of the worst economic times since the Great Depression. Create. Innovate. Do something. Now is a great time to be an entrepreneur, for individuals and banks.

We currently suffer from an underemployment of labor and human capital which results in lower real income and a lower standard of living.

During World War II, the Greatest Generation was accustomed to working an average of 45 hours per week which settled to around the 40 hour level in the postwar years into the 1950's. We must work harder as a nation to remain competitive.

Gone are the ambiguous jobs with lofty titles. My favorite…*Lead Metrics Facilitator*. If you have a BS title, perhaps you have a BS job. Provide value or perish. Future success may require a little personal re-invention but opportunities exist for those willing to change.

Challenge Question: Is your job experiencing decreasing demand?

Prediction #8 - Bank Marketing Plans Get Re-Worked

If banks put pushing products ahead of building customer relationships, they will fail. Today's customers expect a softer, more intelligent approach that takes patience, adequate capital, the right strategy, hard work, advanced technology, and dedicated people.

Former Porsche CEO, Peter Schutz, notes that "People buy other people and corporate culture." Schutz analyzes the difference in operating a "commodity" business and "people" businesses. UPS is a commodity business…so is AT&T. Their customers are not necessarily close to the corporation's people. Customers just want their packages delivered on time and their telephones to work. Alternatively, consulting firms, law firms, healthcare professionals, and CPA firms are good examples of people businesses where confidence and trust are the foundation of the relationship. So, is a bank, a "commodity" business in terms of being a transaction engine and information network or a "people" business in terms of personal bankers and the close relationships its customers have with tellers, lenders, and branch managers? The answer is "both." Bank customers want their transactions posted timely and accurately but most want a personal touch when obtaining a loan or opening a deposit account. Banks must be hybrids that have the best possible operations and technology and the most friendly, competent people. Technology and people…a winning combination.

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CAPTCHAs are those distorted, wavy words one must decipher when ordering tickets online or setting up a social networking or an email account. CAPTCHA stands for **C**ompletely **A**utomated **P**ublic **T**uring Test to Tell **C**omputers and **H**umans **A**part. CAPTCHAs decipher 10 million words each day and determine that you are human and not a computer trying to propagate spam or aid scalpers.

Many consumers will put banks through a CAPTCHA of sort in 2010, assessing whether yours is the cold, computer-like Wall Street bank they read about in the news or the warm, friendly Main Street bank with the human touch *plus* the latest technology to deliver a variety of services through multiple channels. Bankers' marketing plans will need to be revised to achieve this new balance.

Challenge Question: What is your customers' perception of your bank?

Prediction #9 - Social Media Gets Busy

Social media has transformed from a novelty used mostly by teenagers to a full-blown phenomenon in just over a year. Facebook added 100 million users in less than nine months and at the end of 2009 had 350 million active users. 700,000 of those are local businesses, some of which are banks. Since December 2008, more than 80,000 websites have implemented Facebook Connect. Think it's still just a haven for teenagers? The fastest growing demographic for Facebook is 35 years and older.

While social media presents many opportunities for banks to reach current and potential customers, it also has its share of threats. Pages can be rigged to serve up malicious code. Emails that appear to be from "friends" may be spear phishing attempts containing Trojan horse programs designed to steal one's personal financial information. Acceptable use policies and security awareness will need to be updated in 2010 to make bank employees and bank customers aware of such hazards.

Nevertheless, social media should be embraced by bankers in 2010. It represents a powerful, collaborative tool that has endless possibilities for connecting with customers.

Challenge Question: Does your bank have a Social Media Strategy?

Prediction #10 – Cyber Crime Increases

As we predicted in 2009, cyber crime got organized and attacks on bank customers became more prevalent. As of October 2009, the FBI reported approximately $100 million in attempted losses due to such activity. Unfortunately, we see more of the same in 2010 as ACH fraud via online cash management continues an upward trend. This will lead bankers to review their current cash management agreements with

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customers. Many of these agreements were drafted in the earlier part of the decade and do not consider the increased sophistication and growing number of threats. What is "commercially reasonable" will be challenged by bank customers who have been defrauded by cybercriminals. Delineation of customer responsibility will be more clearly outlined in future agreements. Bankers will also increase customer education surrounding cyber crime in an effort to collaborate and defeat this growing threat.

Challenge Question: Are your bank's disclosures and agreements, plus security and technology, up-to-date enough to combat cybercrime?

Summary

Despite the miserable lowlights of the past decade, there was opportunity for those willing to take calculated risks on the right ventures. Banks that have been managed conservatively and understand the value of technology and building customer relationships will prosper in the years ahead. This is still America. We will recover. We will lead the world out of this quagmire with our ability to innovate and with a long-awaited return of the Great American Work Ethic.

As Thomas Edison said, ***"Be courageous. I have seen many depressions in business. Always America has emerged from these stronger and more prosperous. Be brave as your fathers before you. Have faith! Go forward!"***

So long, *Downer Decade*! Brighter days lie ahead in 2010. Say hello to the decade of recovery, transformation, innovation, and collaboration. May the new decade bring you peace, prosperity, and security.

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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