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 2012

Back in 1979, in certain subcultures, a 14-year old boy's social status was partially influenced by his high score on popular video games. Many quarters were spent in skating rinks, bowling alleys, convenience stores, and arcades in pursuit of "vid-ja" game domination. One such game of the era was Asteroids, the subject of much of my misspent youth and misspent quarters.

For those of you familiar with the game, you will recall that keeping one's spaceship stationary was a bad strategy, resulting in certain death by colliding with asteroids hurtling through space or by being picked off by missile-firing flying saucers. To achieve the maximum high score of 99,990 points, one had to take the offensive, clearing the asteroid field down to one or two small asteroids then cruising forward in the spaceship to pick off the 1,000-point flying saucers. A miscalculation would result in the score rolling past 99,990 and back to zero, a real bummer for the bell-bottom blue jean, angel wing hair crowd of the day.

Looking back, the game of Asteroids taught some valuable lessons in business strategy. The player had to learn when to avoid threats and when to destroy them; which targets represented the highest value; restraint, to avoid the dreaded rollover to zero; how to maximize one's investment (quarter); and how to deal with new market entrants (asteroids and flying saucers) gunning for your spaceship (business).

One thing was certain: "Hunkering down" was not a winning strategy. Bankers paralyzed by the events of the past few years would do well to employ "Asteroids Strategy" in 2012.

To jump start your bank's "Asteroids Strategy," we offer our annual top ten predictions:

Prediction # 1 - Core Processing Provider Oligopoly Leads to Continued Technology Stagnation But More Outsourcing

Consolidation of core processing providers over the past 10 years has arguably stifled innovation in this sector. One reason this market is tough to crack for new entrants is

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

that most of the current core providers have successfully segmented their products and services to meet the needs of a range of banks, from de novos to multi-billion asset banks. Core processors will continue to acquire niche players and add their capabilities in 2012. Expect mobile banking, customer relationship management, and fraud prevention as the most common add-ons. Still, don't expect any earth-shaking innovations to come from core processors, most of which will maintain a harvest mode.

One interesting trend we have detected in our recent system selection engagements is pricing designed to encourage more banks to outsource core processing. In my previous 18 years of system selection consulting, the outsourced pricing was typically much higher than in-house and normally penalized banks for growth. In the past year, providers are pricing in-house systems much higher than outsourcing in an effort to encourage more banks to outsource. Currently, among community banks, it's a 50/50 split of in-house versus outsourced banks. Expect more banks to outsource as providers' core hardware platform profit margins decrease and pricing is tailored to drive bankers to data centers where providers' significant resources can be leveraged more effectively and profitably.

However, bankers will be wise to review their core vendor relationships and perform the necessary due diligence required to ensure they are paying a fair price and getting value for their most significant IT investment. Letting such contracts automatically renew for another five years without such a review is negligent. The goal of such due diligence is not to beat the vendor into submission on pricing. Instead, the goal should be to evaluate the status of the relationship and determine if value is being delivered and if the provider can support the bank's strategic initiatives.

Challenge Question: Is your bank getting the proper value out of its most significant and costly technology provider relationship?

Prediction #2 - Bankers Learn the Calculus of Customer Potential

In 2012, bankers will continue to struggle with understanding basic cause and effect regarding customer fees. Like the public relations missteps of NetFlix (price increases and Qwikster) and Verizon (charging customers to pay bills online), bankers continued to step in it in 2011. As evidenced by the number of big banks in early 2011 that were quite certain that debit card fees must be implemented to the number that were actually charging at the end of 2011, it's evident that some bankers do just fine driving the car when looking in the rear-view mirror but crash when looking out the windshield while having to maneuver a changing competitive landscape.

Especially in the age of social media, an action or event will produce a response to the action in the form of another event. Hit customers with a fee that is perceived as unfair

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

and the customers will hit back online and en masse. This is the Asteroids equivalent of rolling back over to zero. We sometimes forget that, as Peter Drucker advised, "the purpose of a business is to create and keep a customer"…not repel customers.

Bankers' current use of supposedly sophisticated customer profitability systems resembles a child trying to build a Lincoln Log house without the green roof planks or the red plastic trusses. It's simply incomplete. Bankers are currently taking the small share of the customer's wallet they can actually see and making bad decisions with partial information, driving away good customers in the process.

The carrot is always more effective than the stick when dealing with customers. Bankers will learn this in 2012. Smart bankers will take a long-term view and learn to assess future customer potential instead of present customer profitability. Encouraging expansion of current customer relationships will translate into increased profits and loyal, long-term customers.

Challenge Question: Does your bank assess customer potential?

Prediction #3 - Contactless Payments Take Off

Never bet against Google. The payments system will undergo continued change with wireless payments gaining traction as Google Wallet and similar systems earn acceptance. Google will use its rising Android market share as a launching pad to grab a piece of the payments market. Bankers sitting on the sidelines will suffer as their more aggressive and innovative brethren jump in the game and implement wireless payments systems in addition to P2P offerings using systems that allow the online transfer of funds using one's email address or mobile phone number.

As the payments system changes from paper and plastic to wireless, early moving bankers will take advantage of securing their payments franchise and riding the wave of innovation.

Challenge Question: Will your bank be an active participant in the wireless and P2P payments revolution or will it lose this battle to non-bank competition?

Prediction #4 – The Account Opening Process Gets Better, Faster, and Streamlined

In most banks, the current account opening processing is akin to a trip to the DMV, a messy, time-consuming process heavy on paper and short on service. Expect platform systems, largely unchanged since 1992, to integrate tablet computers and web-based services into the account opening process. Why sign paper when one can sign an

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

iPad? Or, better yet, bankers will finally get on board with the electronic signing process (while complying with the E-Sign Act), eventually offering customers the ability to sign via the web, voice (biometric) signatures, signature pads, or mobile devices. We sign our tax returns electronically. Why should our bank documents be different? Streamlining this key business process is long overdue and today's technology makes it possible to do so.

Switching banks can be a royal pain due to sticky services such as ACH and online bill payment. That's good news for some banks but bad news for community banks that could benefit from big banks' recent mishandling of customer relationships. If banks leave it to customers to handle the switch alone, inertia will win out and customers will stay put, regardless of how poorly their big bank treats them. A "customer concierge" service for such moves would provide the hand-holding, communication, and accounting help to facilitate an account switch. The effort expended now will pay huge benefits in the future by building long-term customer relationships based on trust and responsiveness.

Challenge Question: How long does it take to open a checking account in your bank and how easy is it for new customers to switch to your bank?

Prediction #5 – Insatiable Appetite for Wireless Access Rules

According to a 2011 report from the Yankee Group, consumer demand for wireless broadband will increase sixtyfold by 2015. With most Americans having to choose between AT&T and Verizon, we don't exactly have real competition in the U.S. wireless broadband market, a fact that might slow growth. Hundreds of billions of dollars in private investment have been made in 4G LTE (Long Term Evolution) over the past few years. In the 2009 Harvard ranking of 30 countries with broadband availability and usage, the United States was ranked number 17. South Korea was number one. Such gaps must change in the U.S. to drive economic growth and allow more U.S. citizens to participate in the global economy. Expect 4G hotspots to be big sellers in 2012.

Been reluctant to install wireless in your bank? Your employees will beat you to the punch as 4G hotspots will become the new tech accessories in offices across America, offering untethered Internet access, mobility, and convenience. Be prepared. Better to control a new technology than to ignore it.

Challenge Question: Does your bank offer secure wireless access?

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

Prediction #6 – Bankers Expand Their Social Media Presence

Beyond just slapping up a Facebook page, banks must move social media to the next level. The opposite of love is not hate…it is indifference. Big bank customers are doing lots of hating these days. Other bank customers appear indifferent. Why? Are banks viewed as boring entities that are necessary but not worthy of the effort required to love or hate? Have banks become the financial services equivalent of a neglected spouse? It's time that bankers light some candles and turn on the charm.

Banks that have a social media presence must continue to execute an effective social media strategy to provide updated content and to take advantage of increased consumer adoption of social media and the fact that social media is becoming more mobile as devices improve.

Facebook will leverage its 350 million mobile device users as it partners with Taiwanese mobile phone maker, HTC, to build a smartphone that will run a modified version of Android and will integrate Facebook apps. Code-named "Buffy," this Facebook phone will continue to make the smartphone a more social device.

Bankers must embrace Yelp!, Twitter, LinkedIn, QR codes, hashtags, foursquare, Tumblr, mobile apps, and YouTube, in addition to Facebook, to expand their social media presence. Don't leave Google out of this mix as it will expand how it incorporates search data in early 2012, making it very important for banks' websites to structure data appropriately for Google to read it. An expanded social media presence also helps one's Google rankings.

Challenge Question: How innovative is your bank when it comes to social media?

Prediction #7 - Mobile Remote Deposit Increases Customer Convenience and Reduces Branch Traffic

Savvy bankers will take mobile banking to the next level by adding mobile remote deposit to their suite of mobile services. Pioneered by USAA, this convenient technology that allows customers to snap pictures of checks to deposit using their smartphones will be available to most banks in 2012.

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

How many retail customers visit your bank to deposit a single check? How many small business customers are using 30-90 document-per-minute (DPM) scanners to scan just a few checks each day? These are the perfect customers for mobile remote deposit. Expect branch traffic to decrease as mobile remote deposit technology becomes widely adopted.

Challenge Question: Is your bank positioned to offer mobile remote deposit in 2012?

Prediction #8 – Big Data Drives Big Decisions

The amount of data in banks continues to grow exponentially as core and imaging systems expand and as ancillary systems experience increased usage. The range of data sources, their velocity through the bank's systems, and how to capture, store, and retrieve such data will present challenges. In 2012, bankers will seek to unlock these high volumes of data and transform it into useful, strategic information.

"Big data" is the term applied to very large data sets that cannot be managed by normal software tools. Whether a bank is dealing with terabytes, exabytes, or someday zettabytes (not yet achieved on any system), new approaches will be required to deal with this rapid data expansion.

Big data will not be used to benchmark compared to peers, a futile exercise for most banks. Instead it will be used to look inward to the bank's productivity, efficiency, and decision-making ability to craft strategies and monitor performance unique to the bank and its markets. In response to this new challenge, expect new, more sophisticated data management solutions to be introduced in 2012.

Challenge Question: Is your bank managing its data effectively?

Prediction #9 - IT Examinations Expand in Scope

Expect regulatory exams to be tougher than ever in 2012, especially in the IT area where the scope has expanded and examiners are now more knowledgeable about network security issues. Bankers must have the proper IT audits, network vulnerability assessments, risk assessments, strategic technology plans, and related documentation to successfully pass the extensive IT examinations of 2012.

A plethora of risk assessments will be required and will grow in number with the Enterprise Risk Assessment (ERA) taking center stage as "The Mother of All Risk Assessments" in the coming year. Bankers will use the ERA to identify threats to the

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

enterprise and mitigate risk appropriately across all banking functions, a worthwhile exercise in today's banking environment.

Challenge Question: How Prepared is Your Bank for its Next IT Examination?

Prediction #10 – Bank Failures Continue Downward Trend as Generational Knowledge Gap Increases

As we predicted last year, bank failures peaked in 2010 with 157 and decreased in 2011 with 90 failures (as of December 7, 2011). As a result of this welcome trend, the 2012 FDIC operating budget is 15.4 percent lower than the 2011 budget and reduces employee headcount by 565 positions, with further reductions in 2013 and beyond.

Now is the time for bankers to increase continuing education investments for their people by sending them to top banking schools and industry-specific education events. The generational knowledge gap will widen in 2012 as veteran bankers retire. Many community banks' top leaders are over 60 years of age. This creates incredible opportunities for those future leaders who are educated and capable of taking the reins and running their banks. Otherwise, many banks will be forced to sell as the resulting leadership vacuum and "brain drain" kills their ability to compete with younger, more enthusiastic, and hungrier banks who have continued to invest in their people and in turn the bank's future.

Challenge Question: Does your bank have a succession plan to groom new leadership in the coming years?

Summary

To successfully execute *Asteroids Strategy* in 2012, remember to keep moving forward, remain aware of new market entrants, maximize technology investments, and be aggressive but do not overreach your goals and roll back to zero.

Best wishes for a successful 2012 filled with high scores and winning tech strategies.

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 2012***, visit:
http://www.williammills.com/images/pdfs/WMA_BAB_2012.pdf