

BANKING & TECHNOLOGY REALITY

By
Jane Haskin
President
First Bethany Bank

DISCLAIMER

- I'm not a technology expert!
- We are a \$165MM bank.
- I am president of the bank and I am struggling like everyone else to make the wisest and most cost effective decisions regarding technology.



THE GOOD NEWS IN BANKING!!

Technology



THE CHALLENGE IN BANKING!!

TECHNOLOGY

The bottom of the slide features a decorative graphic consisting of three overlapping geometric shapes: a bright orange triangle on the left, a teal triangle in the center, and a light blue triangle on the right, all pointing towards the bottom-left corner.

ISSUES

Technology is changing based upon Moore's law.

- Gordon Moore, the co-founder of Intel Corporation, published a theory in 1965 which states :
 - computing power would double every two years
 - the cost would remain relative constant.

This is still holding true today!

- A mainframe computer of the 70's with a cost of \$1 million had less computing power than the I-Phone of today.



BANK TECHNOLOGY CHALLENGES

- The evolution of the internet in 1991 has revolutionized how we interact with customers.
 - Customers have many choices for products and services through the internet .
 - University students will no longer walk across the street to open a new account.
 - Most customers want to perform financial services when they have time and in the most convenient way for them.
- 

Bank Technology Challenges - cont.

- The cost of technology is proportionally a much greater expense for smaller banks than it is for larger banks.
 - Larger banks have their own proprietary software where smaller banks must rely on software vendors and core processors for products.
- 

Bank Technology Challenges - cont.

- Bank products are segmented and have been looked upon as separate delivery channels, such as:
 - ATM's
 - Internet Banking
 - Mobile Banking
 - Branch Banking
 - Bill Pay
 - E Statements



Bank Technology Challenges - cont.

- The length of service contract terms often extend beyond the providers usefulness.
 - Keep contract term shorter than 3 years.
- IT personnel are responsible for safety of information and that is their number one goal.
 - Difficult to balance between safety and customer service.



Bank Technology Challenges - cont.

- Many segments have different providers and different contracts rather than one platform.
- In the last ten years the bank's transactions have gone from 50% through alternative channels to 90%.



Bank Technology Challenges - cont.

- Often times difficult to find IT staff with knowledge of new products.
 - Will the technology in which we invest be the products customers want?
 - Currently most banks are overwhelmed with regulations and have lost sight of new innovations.
 - The first thing bankers consider is the regulatory risk to the bank of new technology.
- 

OPPORTUNITIES

Mobile Banking is here to stay! (Are you providing this service?)

- Concerns:
 - Information Safety is a main concern among both bankers and customers.



Mobile Banking

- **Resolution:**
 - Smart phone mini-browsers and application platforms provide 128 bit SSL encryption as a minimum, which is the same essential security layer we have behind secure internet banking.
 - Required six-to-eight digit password authentication.



Mobile Banking

Target Customer

- It is NOT the young geek you are seeking to provide mobile services and hope they will someday become a good customer.



Mobile Banking

Target Customer

- It is the high end net worth customers who are utilizing mobile banking services
 - they can afford the gadgets
 - they are pressed for time
 - most of the time don't need your advice for their transactions.



Mobile Banking

Target Customer

- Wants you to keep it simple and fast.
- Must have B2B payments and P2P payments soon.



Currently Available to Banks

MasterCard Market Place

A merchant-funded website, [MasterCard MarketPlace](#) operates like a rewards program

- No commensurate cost to a financial institution.
- Cardholders simply enroll for free, indicating their merchant category preferences in an engaging user interface.
- They can choose the coupons or discount codes they want and use them whenever they make purchases with their MasterCard consumer debit, credit, or prepaid card.

Currently Available to Banks

MasterCard Market Place

- the offers are funded by merchants
- the user-friendly website is maintained by MasterCard
- the only investment necessary for financial institutions is in providing marketing support.
- Marketing materials provided by MasterCard

COMPETITION - Optional payment Systems

- Regulated banks are losing their role as the primary keeper of the payment system which accounts for an estimated \$280 billion a year in revenue to non-regulated companies such as:
 - Google wallet
 - Square
 - Froggy Pay
 - Pay Pal
 - Target and Wal-Mart
 - Starbucks

Optional Payment Systems

- All of these companies are working to eliminate banks from the payment revenue system
- They are rewarding the consumer with discounts and reward programs



Optional Payment Systems

Office Depot NFC Reader



Optional Payment Systems

My Local Whataburger Drive Thru



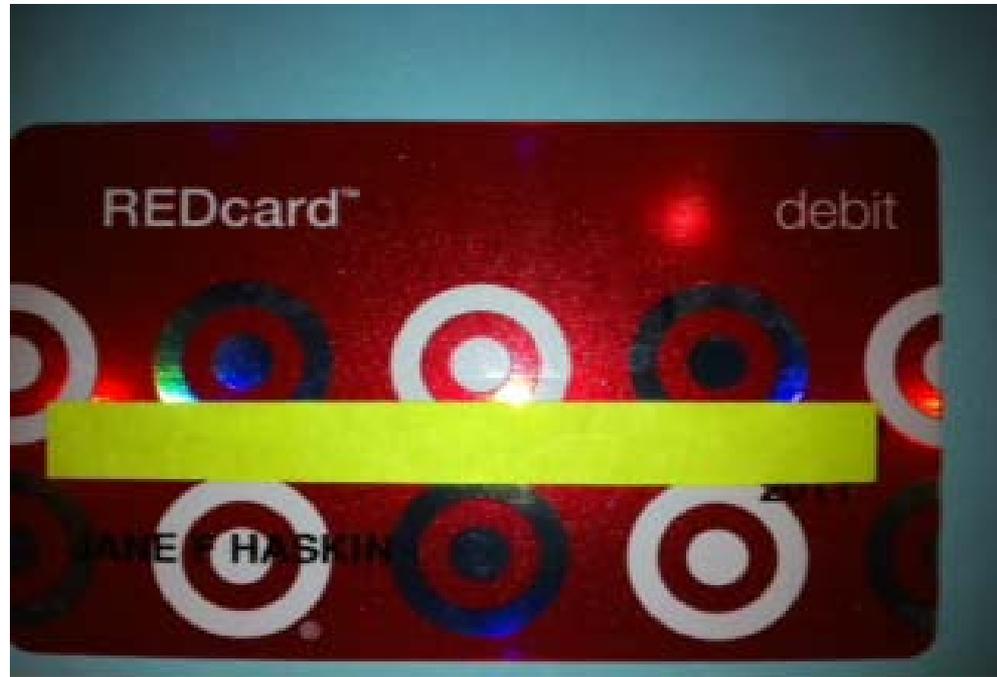
Optional Payment Systems

Square Card Reader on I-Phone



Optional Payment Systems

Target Stores Debit Card



BANKS NEED A NEW PRODUCT

Old Technology:

- mag strip debit and credit cards
 - Use three or four digit codes
 - Same codes used over and over for transactions

New Technology:

- EMV chip-enabled debit and credit cards
 - Europay MasterCard Visa chip-card standard
 - Widely used in Europe, Asia and parts of Africa
 - More secure because they use dynamic authentication
 - Use security codes that are good only once per transaction

New Products - cont.

Positive Features for EMV Include:

- Cards can use Near Field Communication to provide an almost instantaneous transaction.
 - Same readers can be used for mobile transactions.
 - Customers will appreciate the speed and ease of use.
 - Can be used as a replacement for carrying cash for smaller transactions
 - Fast, Convenient and Secure
 - Even when mobile banking is available, not all customers will use those services and will use cards.
- 

New Products - cont.

Conclusion:

- Every banker needs to call their debit and credit card provider to see when these cards will be available.



New Products - cont.

EMV-enabled European Prepaid Sticker

- Attached to a mobile phone for convenience



IF YOU WANT TO KNOW MORE

Read:

- Bank 2.0, How Customer Behavior and Technology Will Change the Future of Financial Services by Brett King
- Moving Money, The Future of Consumer Payments by Robert E. Litan and Martin Neil Baily