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Grading Emerging Banking Technologies: *Where to Invest in 2013*

With fall conference season concluded, many bankers have recently visited an exhibit hall or two and have seen the latest offerings from hardware and software vendors. Some of these technologies are essential; others remain lower priorities. Below, we grade several technologies that generated broad discussion at the fall shows.

YOU'VE GOT TO HAVE THESE:

Teller cash recyclers (TCRs) are the most valuable of the emerging technologies. If your institution is not using TCRs and you're not yet considering doing so, you should be. TCRs receive, store and dispense currency and coin and also receive and store checks. The recyclers speed transactions, improve accuracy and reduce end-of-day balancing and reconciliation tasks. Most importantly, because TCRs store cash in a secure environment (think of the TCR as an ATM for which only the teller has the card and PIN), they allow tellers to leave the teller station to greet and interact with customers. TCRs also carry the added benefit of reducing trips to the cash vault. But it is the untethering of the teller from the teller line that is most important, as this can reduce staffing requirements, improve customer service and allow redeployment of surplus teller hours.

Image-enabled ATMs (ATMs that accept checks directly, i.e., not in an envelope) also can yield direct, immediate benefit. Image-enabled ATMs reduce costs and improve customer convenience. The machines give the customers confirmation their deposit was accepted by printing an image of the deposit item on the receipt. By removing the consumer's uncertainty as to whether a deposit reached the proper place, image-enabled ATMs greatly boost use of the deposit function. At traditional envelope-based ATMs, deposits constitute about 3% of transactions; but when those machines add envelope-less capabilities, the proportion of deposits increases to 15% - 20% of transactions. The technology removes transactions from the teller line, eliminates daily visits to empty the deposit bay (since the check image is transmitted electronically, which can't occur through an envelope), and most importantly, gives customers confident access to the deposit function beyond normal branch hours and at non-branch ATMs.

YOU SHOULD CONSIDER THESE, BUT THEY'RE NOT IMPERATIVE:

One of the most widely discussed technologies is **video remote teller stations,** where customers at a branch (or branch drive-in lane) are served by tellers who converse with the customers over a video screen but are housed in a centralized location. The technology allows the centralized tellers to serve multiple branches, and can be especially beneficial in small or rural markets that lack the demand to keep tellers fully utilized. High security risk neighborhoods offer another potential application. But because the centralized tellers serve multiple branches, idle time is reduced, per-teller transaction volumes increase and average transaction costs decline. Consumer acceptance may pose a challenge; keep in mind that there are numerous ways to bank remotely, and the customer who has traveled to the branch may have done so specifically because she prefers a direct, personal interaction. However, if the alternative to remote-based tellers is closure of a lightly utilized branch, the customer base would surely vote for the video option.

Similar to the remote teller technology, **video remote line of business specialists** can also benefit smaller or outlying branches. In this application, a conference room in the branch contains a screen where an agent from a less frequently sought business line (e.g., wealth management, mortgage, insurance) joins a discussion with a customer and a branch officer from a remote location. Note this should not be a self-service approach; a customer can speak directly with a wealth officer over a computer from his living room if that's his desire. If a customer visited the branch to begin with, he did so because he sought in-person consultation, and the on-site officer should respect that wish by establishing the connection to the remote specialist and mediating the conversation between customer and specialist. The application allows a single officer to address numerous branches for lightly used functions (even a busy branch may have *(continued on page two)*

TOP DEPOSIT GROWTH MSAs 2011 - 2012

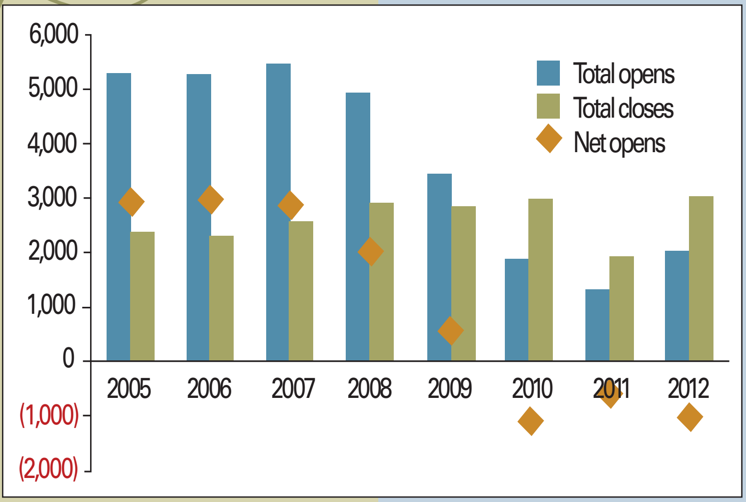
1	Austin, TX	8.4%
2	Provo, UT	8.3%
3	Charleston, SC	7.8%
4	Washington, DC	7.6%
5	San Antonio, TX	7.5%
6	Houston, TX	7.3%
7	El Paso, TX	6.7%
8	Salt Lake City, UT	6.6%
9	Durham-Chapel Hill, NC	6.3%
10	Oklahoma City, OK	6.1%
11	Colorado Springs, CO	5.9%
12	Grand Rapids, MI	5.8%
13	Omaha, NE	5.8%
14	Raleigh, NC	5.6%
15	Dallas, TX	5.6%

Five of 2012's top 15 deposit growth markets are in Texas. Look for more trends and commentary on the 2012 FDIC/NCUA deposit statistics, as well as insights for the year ahead, in **Bancography's 2013 Outlook,** available at *www.bancography.com* in February.

Grading Emerging Banking Technologies: *(continued from page one)*

only a few wealth referrals a month), and saves the expense and office space for an in-person 'circuit rider' officer. And in outlying towns, remote video may offer the only means to cost effectively deliver specialized services. Implementation costs are moderate, and unlike video tellers, the technology doesn't displace a routine in-person branch staff to customer interaction.

Personal financial management (PFM) tools aggregate all of a customer's financial activities into a software application that facilitates personal financial planning. The tools present all of a customer's relationships (deposit, credit, investment) on one screen and allow the customer to examine and commit to specific scenarios. For example, a customer may set a goal of building $1 million in savings by age 65; the application will calculate the required monthly contributions under various yield scenarios, and the customer can even schedule automated transfers between accounts to support the chosen scenario. Other PFM tools can chart expenses and help with personal budgeting, compare historic investment performance, and calculate alternate loan amortization scenarios. By giving the customer an integrated view of his household finances and supporting the pursuit of his financial goals, PFM tools create a more informed customer; and this greater knowledge can generate additional product requests. But the primary benefit to the institution in offering PFM tools lies in boosting retention, which can arise both from the loyalty customers award to a provider that gives them useful tools, and from the reluctance to change primary accounts once a personal profile is established in the PFM application. As with online bill pay, smaller banks typically license PFM tools from third party providers, so bankers will need to choose between absorbing a fee or passing forward the fees, i.e., between speeding customer adoption or expense control. One compromise is to offer the services fee-free to premium customers only.



BRANCH COUNTS

The inventory of branches in the U.S. has declined by about 2% over the past three years. New branch construction increased slightly last year, but continued merger-related closures helped drive a net decline in the nation's total branch base. Look for more trends and commentary on the 2012 FDIC/NCUA deposit statistics, as well as insights for the year ahead, in **Bancography's 2013 Outlook,** available at *www.bancography.com* in February.

NOT THIS YEAR, MAYBE NOT ANYTIME SOON:

Nearly every regional and national bank offers **mobile banking** services which allow consumers to check their balance from a "smartphone," transfer funds, and receive text alerts regarding low balances or other activity thresholds. These are all beneficial to certain consumer segments, and if your institution can add the services at modest cost, by all means do so. But there is little evidence that mobile banking capabilities are a driver of institution choice, or even a disqualifier ("I wouldn't use a bank that didn't offer mobile banking"). Further, there is no evidence of consumer willingness to pay for the service. Unlike a free checking account that still generates margin revenue, or a free debit card that still generates interchange income, there is no revenue component to free mobile banking. For any small institution that would have to pay a third party provider on a per-user basis, mobile banking is an inherently money-losing proposition. Thus, unless the application can be deployed cost-effectively in concert with an existing online banking application, mobile banking ranks below other investments.

Customer relationship management (CRM) is a catchall phrase to describe applications that seek to present an integrated view of all customer holdings and interactions across all channels, and to intelligently recommend service actions to bank personnel. For example, if a customer contacts the call center about a lost debit card that he reported at a branch yesterday, the call center agent should be able to see that the customer reported the lost card yesterday at 10 a.m. at the South Street branch; and to tell the customer when card operations will send the replacement. The CRM system should have also prompted the branch CSR to offer the customer the bank's new identity protection service; and logged whether the customer accepted the offer, which could in turn spark a follow-up offer from the call center agent. All of which sounds great on the drawing board. But true CRM systems that cross channels remain frighteningly expensive, and costs would need to be recaptured through significant sales and retention improvements. Before committing to such an investment, bankers should ask: is our sales force trained to execute on sales prompts the system delivers? Can our current MCIF create next-most-likely product prompts? Does our core system offer a framework that, in concert with training investments, would allow our staff to follow the history of service interactions across channels? Would a CRM system yield incremental sales beyond what we would realize from other planned investments (sales training, direct marketing, advertising)? In sum, before undertaking a substantial investment in a CRM system, bankers must confirm that current tools can not create similar results, and that their sales force is sufficiently trained and motivated to leverage any new sales tools that are provided.

The 2012 Presidential Election: Lessons for Marketing Research

When most of the nation reflects on the 2012 election, they will think about whether their preferred candidate won or lost, and defining moments such as debates and conventions. At Bancography, we'll also remember a resounding victory for the science of marketing research. While a surfeit of cable news channels filled endless hours with prognosticators confidently guessing at winners and margins, several research groups, looking at only the numbers and without interjecting personal experiences, proved far more successful at forecasting the election outcome. The vindication of data over intuition underscores the importance of listening to the numbers, whether in branch planning, product management or advertising decisions. But the success of the pollsters over the pundits carries particular lessons for marketing research.

Sample size matters: The most accurate predictors of the election results never conducted a single interview. Rather, it was the poll aggregators – such as Dr. Sam Wang of the Princeton Election Consortium, Nate Silver at the New York Times' "FiveThirtyEight" column and Dr. Drew Lizner of Emory University, who publishes the website Votamatic – who generated the most successful forecasts. The "poll of polls" approach calculates a weighted (by sample size, with adjustments for recency, historic accuracy and other factors) average of the results of a broad group of public polls. The aggregators use predefined methods that remain constant throughout the campaign periods, i.e., with no subjective adjustments. By aggregating multiple polls, these forecasts gain an effective sample size many times larger than any individual poll; further, biases from outlier polls dissipate. The greater sample size yields fewer error factors, and thus greater accuracy. The implication for market researchers: while budgets pose real constraints, think earnestly before sacrificing sample size for the sake of cost. Skipping 100 interviews will save a few dollars, but can compromise the validity of your entire study.

Market segments matter: On an almost daily basis some news organization would release a poll forecasting the national popular vote – even though the president is determined by the state-level, winner take all (in all but two states) electoral vote. So while polls showed a near even national popular vote, the important data were impounded in state-level polls of the "swing" states, a group of 10 – 12 states where campaigning could potentially shift the state's electoral votes from one candidate to the other. In bankers' context, relying on the national polls was the equivalent of an affluent-focused bank surveying across an entire metro area; the findings would not reveal whether the bank was effective where it mattered most. Marketing research can be expensive, so it is critical to concentrate expenses in those areas where the answers are most important. Accordingly, research samples should span only an institution's target segments, though they must still be random within those segments.

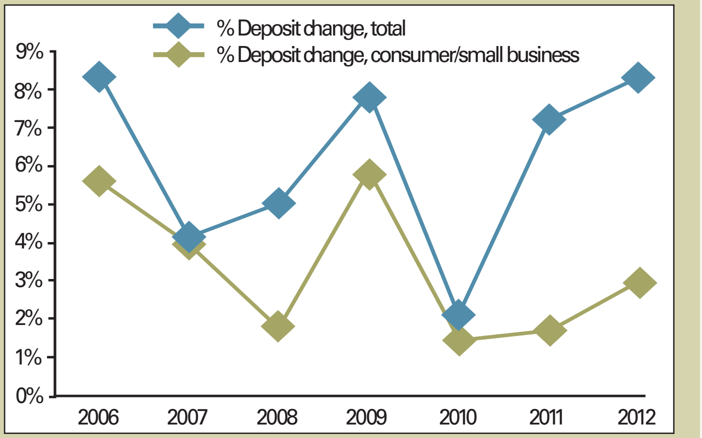
Cell phones have changed the rules: Even Saturday Night Live caught on to this critical shift on October 20th when Seth Myers, host of the "Weekend Update" news spoof noted: "A new Gallup poll shows that Mitt Romney now has a seven point lead on President Obama. That's right, Romney leads by seven points among people who still answer landline calls from a blocked number." Despite the humorous context, the poll referenced was real and the point valid; no other national poll showed a margin near that level, and Gallup's landline-only methodology had clearly yielded biased results. At least one-third of households no longer own traditional landline phones, and the distribution of cell-only households is highly skewed across demographic segments. Thus, a calling sample that relies only on landline phone numbers will not yield a representative sample of your bank's customer (or prospect) base. If your research sample isn't reaching cell phone customers, you're likely not receiving accurate, representative results.

Listen to your worst polls, not your best: In the days following the election, journalists who travelled with the Romney organization reported that campaign leaders had appeared surprised, even shocked, on election night as the returns rolled in; the campaign's internal polls had shown Governor Romney ahead or at least competitive in many swing states that President Obama would win by comfortable margins. The campaign had chosen to focus on internal polls, which showed a more favorable forecast than public polls. The reliance on the more optimistic data led not only to surprise on election night; it may have harmed the candidate's chances through resulting resource allocation decisions. Overly optimistic data may have led to reducing advertising expenditures and candidate appearances in perceived secure states (Florida, Virginia) toward the end of the campaign (while dollars were devoted to trying to put other states such as Pennsylvania and Wisconsin 'in play', though both proved unwinnable). But could last minute defensive investments have kept Florida and Virginia in the governor's column? For bankers the lesson is that it is wiser to believe our worst survey results – and to over-invest in customer service in those markets – than to believe our best results and wrongly decide that no additional service investments are necessary.

Do not impose subjective value judgments on the data: Many pundits explained the deviation of their forecasts from the poll consensus by citing bias in the polls. Several prominent Republican-leaning writers noted that the self-reported party affiliation of poll respondents didn't match their own prediction of turnout patterns. On election night, the poll data proved correct, and confirmed that asking people their party affiliation and likeliness to vote was in fact a superior means of estimating turnout than using a single individual's opinion. By substituting their own opinions, the writers neglected a fundamental of marketing research: if the sample is well constructed and truly random, no adjustments should be needed. In a post-election interview (USA Today, November 8), Dr. Wang of the Princeton Election Consortium compared the pundits' willingness to discredit polls that yielded dissatisfying results with "ignoring hurricane forecasts because you don't like the idea *(continued on page four)*

DEPOSIT CHANGE

Consumer deposit growth rebounded in 2012 from the lows of the prior two years, but growth still remains below the pace of the mid-2000s boom years. But institutional deposits increased substantially in 2011 and 2012, as large corporations parked cash in financial institutions, hesitant to invest in a slow economy. Look for more trends and commentary on the 2012 FDIC/NCUA deposit statistics, as well as insights for the year ahead, in **Bancography's 2013 Outlook**, available at *www.bancography.com* in February.



of your house blowing down." He added a caution that is applicable for all researchers: "Their gut instincts were wrong, and it would be a good idea for them to ground their judgments in quantitative data."

Trends move slowly: Despite the millions of dollars spent on polling and other data collection and analysis, a simple, zero-cost approach could have yielded 96% predictive accuracy. Had you simply predicted "every state will vote for the same party candidate in 2012 as in 2008", you would have correctly forecasted the outcomes in 49 of the 51 states (counting Washington, D.C.). The past four years featured numerous transformative events: health care legislation, debt ceiling negotiations, drone strikes, Supreme Court appointments, to name a few; and of course, a full political season of advertisements and debates to also influence views. Yet despite all these opportunities to recast opinions, only Indiana and North Carolina voted differently in 2012 than in 2008 (both moving from the Democratic to the Republican candidate). Although opinions may swing temporarily in response to specific events (for example, the Democratic National Convention yielded a strong poll increase for President Obama; and the first presidential debate yielded a strong poll increase for Governor Romney), long-term changes in perceptions occur gradually, as actions must overcome deep-rooted previously formed judgments. While this may imply that a bank can coast on a positive reputation for some time even if its service wanes, it more alarmingly cautions that overcoming a negative perception – or even a neutral one, in the face of positive competitive perceptions – can occur only with consistent efforts over a long-term horizon.

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