

A First Data White Paper

Meeting Today's Customer Needs with Internet Banking

Introduction

Undeniably, Internet banking is a critical tool for consumers to manage their financial relationships and accounts conveniently and efficiently. In a recent study conducted by First Data and Market Strategies International, 87 percent of respondents indicated that they use online banking. It's no longer adequate for financial institutions to offer just rudimentary online banking services, however. To retain existing customers and attract new ones, financial institutions must keep their online self-service channels up-to-date with the latest features and tools.

Savvy banks and credit unions understand the value of technology as a competitive differentiator, and are continually adding functionality that will deepen the relationships with their customers while helping them attract new ones. In some cases, financial institutions must make the decision to upgrade outdated Internet banking solutions that no longer meet the needs of increasingly demanding online customers. Without a complete solution in today's competitive financial marketplace, an institution's most profitable customers are likely to switch to a competitor with more useful and sophisticated online capabilities—making platform conversion a risk entirely too great to put off. Luckily, the conversion process to a new Internet banking solution is simpler and less costly than it may appear.

This paper explores the online capabilities today's consumers demand, how to choose the right Internet banking solution, and best practices for a successful conversion.

Internet Banking Capabilities that Customers Demand

Internet banking has come a long way since first-generation solutions were introduced in the 1990s. Older systems allowed customers to view recent statements online, conduct transfers between accounts at the same institution, and pay a limited range of bills. Over time, consumers have come to expect greater functionality from online banking applications, including full account histories, check imaging, external transfers and comprehensive bill payment. Fortunately, there are high-performance Internet banking solutions available that can cost-effectively meet even the most sophisticated consumers' needs—reducing the risk of losing them to the competition.

In order to successfully accomplish the goals of increased customer engagement and enhanced loyalty, an Internet banking solution must augment traditional account management features with additional capabilities, such as:

- **Mobile functionality.** With the continuing increase in smartphone penetration (50 percent of consumers and growing, according to a recent First Data survey), financial institutions must adapt their online technologies and strategies to mobile devices—both phones and tablet computers. This means providing text alerts, optimizing institution websites for mobile browsers, and making downloadable mobile apps available. Offering a mobile banking app provides the necessary functionality and security for today's consumers to conduct their online activities as safely and conveniently as they have come to expect—and it also facilitates the introduction of advanced tools like mobile remote deposit capture, mobile wallet capabilities and P2P payments.
- **Online account opening.** Many consumers, especially younger and more affluent consumers, prefer the convenience of opening new accounts online—making this functionality critical to a successful online strategy. Online account opening is not only convenient and efficient for customers; it is also significantly less costly for institutions to administer than equivalent manual processes.

To be simple and quick, opening an account should take only a few minutes for new customers and even less for existing ones—with a minimum number of steps to complete an application. The platform should support immediate automated approval of an application based on business rules defined by the institution, and all disclosures and signature forms should be handled electronically to reduce paper costs and optimize the customer experience.

- **Enhanced alerts.** Today's customers demand timely and relevant account alerts, and they want them sent through multiple delivery channels for maximum convenience. An institution's Internet banking solution should be able to handle one- and two-way messages via text, e-mail, and voice, and should integrate with core systems for real-time list generation and response capture. Alerts should go beyond simple account balance notifications and payment deadlines to include fraud prevention mechanisms like notifications for address changes, large purchases, foreign transactions and wire transfers.
- **Personal financial management (PFM).** PFM tools allow customers to view their account activity from multiple financial institutions on one dashboard, helping them monitor their cash flow, budget their spending, and accomplish financial goals like paying down debt or saving for retirement. PFM tools are a value-added benefit for consumers, and financial institutions that make them available through their online banking platforms have found that they are an effective way to increase loyalty by positioning the institution as the trusted source for financial planning and advice. PFM tools also provide institutions with inexpensive new personalized marketing channels and cross-selling opportunities.

Choosing the Right Internet Banking Solution

With the right Internet banking solution—a user-friendly platform that satisfies today's consumer expectations while allowing for easy deployment of tomorrow's advanced technologies—financial institutions can alleviate the limitations they are experiencing with an outdated system, and improve their ability to retain and attract customers. For most mid- and smaller-sized financial institutions, an outsourced solution likely makes the most sense to accomplish this. Excellent, ready-made options are available to enable institutions to offer the functionality their customers demand without expensive internal development and ongoing maintenance requirements. An outsourced solution not only reduces costs, but also improves security and long-term flexibility.

The single most important criterion when selecting an outsourced solution should be system stability and reliability—with documented uptime of at least 99 percent. An optimal solution will also include a 24/7 call center for accountholders' questions and concerns. While most Internet banking providers expect financial institutions to take their own calls, some providers offer full post-conversion customer support directly to the institution's customers.

Features and functionality are the next most important decision criteria. Before selecting a provider, the financial institution should have a clear understanding of its required functionality. Assessing vendors based on the full breadth of their offerings is critical; it's not enough to simply check off the specific features that are being sought. Financial institutions need to understand a potential vendor's recent product enhancements, as well as its product roadmap. It is essential to select a partner that can be counted on to keep up with evolving customer needs and technology advancements.

An optimal Internet banking solution also seamlessly integrates together as many end-user offerings as possible, from e-statements to check imaging to cash management to mobile banking. This integration provides a straightforward, efficient experience for the user. Additionally, the solution should incorporate effective security and risk analysis tools. The online channel already improves fraud prevention and detection by enabling frequent monitoring of account activity and providing superior account alert capabilities; along with advanced user authentication, data encryption, and multi-layer security technologies, financial institutions can effortlessly offer customers a fraud protection guarantee.

Pricing, of course, is always a key selection criterion. Although rare, there are Internet banking solutions available that offer customized pricing packages. Depending on the quantity of users, institutions may wish to pay a fee per user or a flat fee. Notably, most providers charge for all registered Internet banking users, regardless of activity level. A more desirable pricing model automatically tracks activity and only charges for active users. Smaller financial institutions typically prefer paying per active user, while larger institutions with an extensive number of users typically prefer paying a flat fee.

As financial institutions grow, their Internet banking solution must grow alongside them to continue to meet their business goals and their customers' needs. With an integrated solution from a single premier provider, they can smoothly assimilate additional modules over time, allowing for flexibility and scalability.

Internet Banking Helps a Texas Bank Compete More Effectively, Cut Costs and Keep Customers Coming Back

Hailing from the heart of the Lone Star State, the American Bank of Texas (ABT) caters to a local customer base with 16 branches and \$750 million in assets—but it faces competition from across the country. When bigger banks began offering Internet banking, ABT realized it needed a solution that could stack up against the national institutions.

Prioritizing its selection criteria by system compatibility, back-end simplicity, front-end customer convenience and world-class functionality, ABT selected First Data for its Internet banking solution. Conversion followed a step-by-step process with continual communication to ensure a smooth implementation. Now, ABT's individual and commercial customers can access accounts, pay bills and perform a number of banking functions through a secure Web portal. In turn, the bank has seen a decrease in processing and operating costs, lower fraud rates, and—most important—more engaged customers.

"First Data was very attentive to our needs," says ABT Executive Vice President Mark Few. "They made sure we had the products that are competitive with the big boys."

Nine Best Practices for a Successful Conversion Process


By following these best practices for Internet banking conversion, financial institutions can overcome challenges and successfully execute the conversion process:

- 1. Assess the contract terms with existing Internet banking provider.** A financial institution may wish to terminate the contract if there is little time left on it and the early-termination penalties are minimal. If there is a significant amount of time left on the agreement, the institution may have no choice but to postpone the conversion until the contract expires. Some agreements contain a breach-of-contract clause covering issues such as "significant downtime" or "failure to provide needed features"—which may make it easier for the institution to terminate the agreement without incurring a penalty.
- 2. Develop a conversion timeline.** Specifically, banks must determine when to:
 - a. Review the various providers' offerings
 - b. Select the new Internet banking provider
 - c. Negotiate the contract with the new provider
 - d. Develop a detailed project plan for conversion
 - e. Create a marketing communications plan, including a launch strategy
- 3. Determine the data required for a true conversion.** There are certain key files containing customer account information (such as transaction history, check images and pending transactions) that the financial institution must obtain from the existing provider to smoothly transition end users to the replacement Internet banking solution.
- 4. Conduct a gap analysis.** Financial institutions should carefully review the features and functionality of their current solution, and then look to current online users to help determine the features and functionality the new solution should include. This can be accomplished by contacting active users and inviting them to participate in a customer advisory group with internal staff. Using a matrix format, the institution can include the prospective providers, list each of their solution's features and functionality, and then thoroughly evaluate the offerings based on customer priority. The matrix may also include uptime, service response time, issue remediation time, hours of operation and other significant variables.
- 5. Define key decision-making criteria.** For instance, does the financial institution want the fastest-to-market solution? The easiest to use? The most user-friendly interface? The institution must clearly outline the key decision-making criteria and then qualify the Internet banking solution offerings based on these criteria.
- 6. Consult reputable references on reliable Internet banking providers.** Leading research companies, trade publications, industry associations are all valuable sources for recommendations. The financial institution should only consider providers with multiple core processor relationships, and should request at least 50 references each for a well-rounded, accurate depiction of their services. The reference list should include ten or more clients that have recently converted to the vendor in order to evaluate vendor management of the conversion experience.
- 7. Nail down the actual cost of conversion.** Conversion costs can vary extensively depending on the provider, the asset size of the institution, and the estimated level of difficulty. Institutions should carefully examine the contract terms and fees offered by the potential provider, as well as determine the cost of obtaining the conversion files from the incumbent provider to avoid any surprises.

8. **Meet provider requirements.** Once a new provider has been chosen, it is critical for the provider do an assessment and clearly communicate what it needs from the financial institution to ensure a smooth conversion. These requirements, which are normally minimal, can include obtaining conversion files from the incumbent provider (e.g., history, pending bill payments, user ID files), assigning a dedicated project manager to the conversion process, and confirming IT infrastructure details (e.g., Internet connectivity speeds, firewall protection). As long as these requirements are met during the conversion process, most issues can be avoided.
9. **Develop a marketing/communications roll-out plan.** Due to the intimate nature of Internet banking, it is vital that institutions inform their customers of the upcoming conversion repeatedly, using multiple delivery channels (such as ATMs, direct mail, the Web and e-mail) to minimize confusion about any changes. The messaging should create awareness of the conversion, while presenting it in the most positive way possible. For example, the institution may choose to promote enhanced features the new solution will offer, like personal financial management or improved security. If the conversion requires action from the customer, the financial institution needs to clearly communicate these requirements, no matter how insignificant.

Conclusion

By implementing a comprehensive Internet banking solution from a highly accredited provider, financial institutions of all sizes can achieve a number of different strategic goals. An optimal online banking solution can help institutions reduce operational costs by increasing customer usage of self-service channels for account management, new account opening, fraud detection and problem resolution. It can also enhance revenue growth by providing frequent, personalized cross-selling opportunities, as well as facilitating the type of superior customer experiences that ultimately result in greater long term loyalty. Migrating to a new Internet banking solution may seem like a risky and costly undertaking, but for many institutions it is even more perilous to continue offering an online experience that fails to meet the needs of an ever more demanding clientele.



The Global Leader in Electronic Commerce

Around the world every day, First Data makes payment transactions secure, fast and easy for merchants, financial institutions and their customers. We leverage our unparalleled product portfolio and expertise to deliver processing solutions that drive customer revenue and profitability. Whether the payment is by debit or credit, gift card, check or mobile phone, online or at the point of sale, First Data helps you maximize value for your business.