First Data

A First Data White Paper

Is Your Internet Banking Solution Costing You Customers?

Don't let an underperforming system cost you business—conversion to a new Internet Banking Solution is easier than you think.

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Executive Summary

Internet banking enables customers to save time, take control of their personal finances and even help the environment by opting to receive electronic statements. According to Javelin Strategy & Research, 61 million households regularly use Internet banking today, and 82 million online banking households are expected by 2012. For Internet banking users, online banking services are the third most important driver of financial institution selection, falling just behind rates/fees and customer service. These days, it's not good enough to simply offer online banking services, however. To maintain existing customers and attract new ones, financial institutions need to keep their offerings up to date with the latest features.

Who are these customers? In a nutshell, they are younger, wealthier and more desirable than the average banking customer. Javelin reports that 89 percent of young adults have tried Internet banking, with 53 percent reporting they had banked online within the previous seven days. Considering 30 percent of online bankers aged 25 to 34 join to save time and 21 percent join to get more control over their finances, financial institutions must ensure the capabilities of their Internet Banking Solution proficiently deliver on these customer needs, especially as younger customers gain more and more financial responsibility.

Online banking doesn't just appeal to the young and the hip; it appeals to the more educated and affluent segments of the population as well. Eighty-six percent of individuals with incomes over $75,000 have used Internet banking and 62 percent of these users have done online banking in the last seven days. Online bankers fit the profile of customers that financial institutions want to attract. In addition to their appeal as consumers of financial services, they are also systematically easier to serve.

Internet banking users are $241 more valuable annually to banks than offline customers

Non-online bankers value a personal relationship with their financial institution, and they place high importance on service offerings that can be expensive: the availability of many branch locations and high levels of personal service. In addition, non-online bankers are more price sensitive, scoring "rates and fees" six points higher than online bankers in importance when choosing a financial institution. Finally, they are considerably less likely to migrate to paperless billing and statements—increasing the ongoing cost to serve them. Specifically, the net annual value to the financial institution averaged $241 more per customer for Internet banking users than for offline users, according to a 2006 Forrester Research report.

To retain discerning online banking customers, financial institutions need to offer robust Internet banking capabilities. In CashEdge's second annual Consumer Online Banking Study, 85 percent of respondents stated they would never consider a financial institution without online capabilities, and 65 percent said they would switch to a financial institution that offered more online services.

The top six financial institutions offering Internet banking account for 41 percent of all users, according to Javelin research. These institutions understand the needs of online banking customers and are continually adding functionality that will deepen their relationships with existing customers, while helping them attract new ones. Smaller financial institutions can still compete, but need to understand the importance of Internet banking for customer retention and, in some cases, upgrade first-generation Internet Banking Solutions that limit system performance, features and functionality.

Without a complete solution in today's competitive financial market, the most valuable customers are bound to select an alternate financial services provider—making platform conversion a risk entirely too great to put off. Luckily, the conversion process to a new Internet Banking Solution is easier than some may think, with an Internet banking provider well versed in best practices.

This paper explores the common issues financial institutions face with dated Internet Banking Solutions, concerns these institutions have in converting to a new solution, how to identify the ideal Internet Banking Solution and best practices in a successful conversion. In addition, this paper will help financial institutions gain a deeper insight into the capabilities today's online bankers demand.

The Importance of Internet Banking

Why is Internet banking so important? Convenience, control and cost savings are the three primary motivators that drive consumer adoption of online banking. In 2007, 30 percent of online bankers reported they joined to save time, according to Javelin Strategy & Research's 2007 Online Banking and Bill Payment Report. These online bankers want to conveniently access their financial information and conduct activity anytime, anywhere—particularly younger customers who have grown up expecting immediate access to information and the ability to conduct daily tasks while "on the go." Fifteen percent of online bankers joined for better control, which comprises improved security, as well as the ability to manage account activity and household budgeting, and to better organize financial records. Cost savings, the third key usage driver, results from avoiding trips to the bank and from replacing paper check remittance with online bill payment.

For financial institutions, Internet banking offers a myriad of direct benefits. Online bankers conduct transactions faster and more easily with 24/7 self-service applications. This not only makes the institution more valuable to customers but also reduces operational costs. For instance, a face-to-face transaction with a teller costs financial institutions considerably more—for labor and paper—than an online transaction. Internet banking further reduces costs by decreasing lobby traffic, customer phone calls and the need to print and mail paper statements.

The three main factors that drive customer adoption of online banking are convenience, control and cost savings

With a fully integrated Internet Banking Solution, financial institutions can optimize internal systems and processes, provide a comprehensive view of financial activity for users and easily integrate additional capabilities. By reinforcing the online offerings with quality service and support, financial institutions can further improve customer relationships and benefit from an increase in overall profitability.

Sometimes referred to as "green banking," Internet banking promotes paperless statements and billing. In its 2007 Online Banking and Bill Payment Report, Javelin states that the typical household sent or received an average of 26 bills, statements and checks in 2006, based on U.S. Postal Service data. This totaled close to 700,000 tons of paper. By shifting to paperless banking and bill pay, customers keep paper out of landfills and also cut energy and wood consumption, net greenhouse gas emissions and toxic air pollutants.

While nearly every online banking solution offers some functionality to enhance convenience, control and cost savings, there are a number of key features customers seek that many older systems do not offer. Filling those gaps is critical to financial institutions looking to remain competitive.

Meeting Today's Customer Needs in Internet Banking

Internet banking has come a long way since first-generation solutions were introduced. Typically, these older solutions merely allow customers to view their statements online, conduct transfers between accounts and pay bills to utility providers, telephone companies and financial institutions. Over time, online bankers have started demanding more from their Internet Banking Solution—especially younger customers who are used to instant access to information. Fortunately, there are now comprehensive, secure, high-performance Internet Banking Solutions available that meet their many financial needs—reducing the costly risk of losing online bankers to the competition.

Customers are looking for added functionality in multiple areas. Enhancing customer access to statement history is critical. Three of the top online banking institutions supply seven full years of statement history access within 48 hours. Easy access to online statements enables customers to research transaction history and also helps deliver the peace of mind required to migrate to paper statement suppression—a key cost benefit to banks.

Notably, Javelin states in its 2007 Online Banking and Bill Payment Report that there has been a 180-degree shift in consumers' opinions and usage of check imaging. In 2004, 39 percent of online bankers had viewed a check image online and only 18 percent considered imaging favorable. These numbers had increased dramatically by 2007, when 64 percent of online bankers had viewed a check image and 56 percent considered it favorable.

Consolidated bill payment is another major convenience feature customers seek. First-generation Internet Banking Solutions allow online bankers to pay certain bills, but today's customers want the convenient, time-saving ability to view and pay multiple bills from multiple billers in a single place. If offered consolidated bill pay, 50 percent of online bankers reported they would pay more bills online, according to Javelin. This feature can also be complemented with expedited payment services. Considering consumers paid almost $1.3 billion in expedited payment fees in 2006, financial institutions can significantly increase Internet banking usage with a solution that conveniently offers these services online.

Key Unmet Online Banking Needs:

- → Multi-year statement history
- → Consolidated bill payment
- → Expedited payment services
- → Inter-institution account transfers
- → Enhanced e mail alerts
- → Personal financial management

Several system enhancements are desirable to increase customer control over their finances via online banking. One major example is the ability to conduct inter-institution money transfers. Financial institutions can enhance transfer functionality with cross-institution aggregation capabilities, enabling customers to consolidate their financial information and more efficiently manage funds. When asked what feature they find most valuable in managing finances, 37 percent of online bankers said "consolidating account information across institutions."

Customers increasingly want to tailor their online banking experience for simplicity and control, and an important enabler is the ability to set up e-mail alerts. With the latest Internet Banking Solutions, online customers can sign up for billing e-mail alerts that automatically inform them when a payment is due or has been made. Additionally, customers can set up alerts to notify them of activities like money transfers, deposits, balances falling below a predetermined level, changes to personal information or "any unusual transaction that you specify"—the top alert among 45 percent of online bankers. Thirty percent of online customers want their financial institution to provide customized e-mail alerts and at least 25 percent of online bankers desire seven different alerts, Javelin reports. This instant feedback on account activity provides tighter control than paper statements, reduces the need to check transaction records, enhances security, saves time and prevents errors.

To further meet demands for enhanced account management, financial institutions can give customers more control over their finances with a solution that integrates personal financial management (PFM) capabilities. Effective PFM delivers the features that customers find most valuable for managing their funds. In addition to account information consolidation, Javelin's 2007 Online Banking and Bill Payment Report states that online customers want budgeting tools (55 percent), precategorized expenses (35 percent), integration with current tax information (31 percent) and the ability to receive professional financial advice (30 percent).

Finally, many customers are aware of the latest security options and want Online Banking Solutions that offer multifactor authentication beyond user ID and password. The two most highly sought authentication methods are personal questions and computer recognition. Banks must acknowledge their customers' security concerns by upgrading their Internet Banking Solutions accordingly.

Common Challenges with Internet Banking Providers

Since the financial industry first introduced Internet banking approximately a decade ago, many financial institutions have outgrown their existing Internet banking provider. While it might have been acceptable five years ago to offer an Internet Banking Solution with only basic functionality, this is no longer adequate. More account holders are demanding advanced functionality, such as mobile banking and PFM tools. If a financial institution's multiyear agreement has been fulfilled or is approaching expiration, it is time for the institution to re-evaluate its existing provider based on the following:

- **Service and support**, comprising sustained Web site uptime, fast response to service requests and live frontline customer support—possibly through an outsourced customer contact center. Service and support are crucial for satisfied account holders. If an institution's Internet banking system is routinely out of service, it may be difficult for it to build and sustain a user base. With enhanced service and support, financial institutions can provide a higher level of service to their customers. This competence should be a high priority for institutions, considering 50 percent of all bankers stated in Javelin's 2007 Online Banking and Bill Payment Report that they selected a new financial service provider based on customer service.
- **Systems integration** to seamlessly merge the financial institution's existing systems, applications, processes and data, thus streamlining operations and eliminating redundancy within the organization. This results in a more comprehensive account presentation to online bankers, requiring only one username and password to access, integrated with capabilities such as electronic billing and payment, and online brokerage services.

  Financial institutions should consider an integrated Internet banking solution that consolidates multiple modules, from retail to cash management to bill pay to e-statements, into which a provider can also build an effective fraud protection component with multifactor authentication for security on all channels.
- **Cost.** Naturally, financial institutions are interested in keeping costs down. Internet banking providers commonly charge for all Internet banking users, rather than for only active users. It may make financial sense to convert to a provider that offers an alternative pricing model.
- **Availability of features and functionality** that customers truly desire, including more advanced Internet banking capabilities such as PFM, mobile banking and alerts.

While many financial institutions would like to switch to an Internet Banking Solution that better fits their needs, they may have concerns that converting to a new solution might be difficult to achieve.

Common Concerns About Conversion

Despite the issues that many financial institutions are experiencing with their current Internet banking providers, some are hesitant to convert due to the following concerns:

- **Customer impact.** Conversion to a new provider means various changes to the existing Internet banking system. Financial institutions are extremely concerned about losing customers averse to these changes (such as the discontinuation of features they use), especially because it involves a solution that customers interact with intimately.
- **Increase in internal workload.** Due to the frequent need to address new federal regulations, many financial institutions fall behind on their existing IT workload. The thought of adding to this with the uncertain time and resources required by a conversion deters many institutions from even evaluating their conversion options.
- **Cost.** Apprehensiveness about the cost of a conversion is especially worrisome to financial institutions with significant time left on their current agreements with Internet banking providers. Institutions must determine if they can offset termination penalties and other one-time costs before undertaking a conversion.

Hundreds of financial institutions convert their Internet banking platforms each year, with most resulting in increased customer satisfaction

The fact is, most of these concerns can be mitigated by careful vendor selection, conversion planning and customer communication. While most financial institutions focus on the downsides of conversion, many are not adequately quantifying the risk of customer loss due to maintaining the status quo. Hundreds of financial institutions convert their Internet banking platforms every year, with the majority of conversions going smoothly and resulting in increased customer satisfaction.

Choosing the Right Internet Banking Solution

With the right Internet Banking Solution, financial institutions can alleviate the limitations and challenges they are experiencing with their current system. In effect, the institution can save significant time and money, while greatly reducing the risk of losing valuable customers due to an inadequate solution.

For many small- and mid-sized financial institutions, an outsourced solution makes the most sense. Excellent, ready-made options are available to enable these 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 increases flexibility and security.

The first criterion when researching an outsourced solution should be high availability, with documented uptime statistics of at least 99 percent. An optimal solution will also include a call center for account holders to easily contact with questions or concerns. While most Internet banking providers expect financial institutions to take their own calls, some providers offer post-conversion, 24/7 customer support directly to the institution’s customers. Financial institutions typically choose the duration that the provider operates this call center, which may be as brief as six months.

Features and functionality are the next most important decision criteria. Before selecting a provider, the financial institution should have a solid understanding of their “must have” functionality. Assessing vendors based on the 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 their product roadmap. Financial institutions must be sure to select a partner that will move them forward as customer needs and technology evolve.

An optimal Internet Banking Solution also integrates as many end user offerings as possible, from e-statements to check imaging to cash management to mobile banking. This integration provides a seamless, efficient experience for the user. Additionally, the solution should integrate effective security, anti-fraud and risk analysis tools. The online channel already promotes security by enabling frequent monitoring of account activity and superior alerting capabilities. Along with security, anti-fraud and risk analysis tools, 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 providers 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. Conversely, a better 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.

Multiple pricing models exist so look for one that charges for *active* users instead of *registered* users

In addition, an optimal solution provides all of the audit and reporting documentation that financial institutions need. As audit trails are synonymous with bank technology, financial institutions require an Internet Banking Solution that offers intelligent audit and reporting functionality.

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 premier provider, they can smoothly integrate additional modules over time, allowing for flexibility and scalability.

Best Practices for Successful Conversion

Choosing an optimal Internet Banking Solution is the first step in achieving new levels of success with online bankers; choosing a provider that can minimize the impact of the conversion process is the second. Financial institutions considering a conversion to reduce costs and enhance efficiencies while building a competitive edge through Internet banking must first determine if the conversion is financially feasible. Then, the institution should develop a detailed plan with strategies for a successful conversion. This plan should include a thorough analysis of all providers.

By following these nine best practices for Internet banking conversion, financial institutions can circumvent 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 quantity of time left on the agreement, the institution may have no choice but to postpone the conversion until the contract expires. Notably, 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. Develop a marketing communications plan, including a launch strategy

3. **Conduct a gap analysis.** Financial institutions should carefully review the features and functionality of their current solution, and then look to avid online bankers to help determine the features and functionality the new solution should include. This can be accomplished by personally contacting these users and asking 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.

> After extensive analysis and client feedback, we chose First Data based on their ability to provide the breadth of functionality needed to offer superior service to our clients.
>
> Hugh Queener,
> Chief Administrative Officer, Pinnacle Financial Partners

4. **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.
5. **Consult reputable references on reliable Internet banking providers.** Leading research companies, well-known trade publications, industry analysts and esteemed colleagues are all valuable sources for recommendations. The financial institution should only consider providers with multiple core processor relationships and request at least 50 references each for a well rounded, accurate depiction of their service. The reference list should include 10 or more clients who have recently converted to the vendor to provide information on vendor management of the conversion experience.
6. **Determine the data required for a true conversion.** There are certain key files that contain customer account information, such as history, check images and pending transactions, which the financial institution must obtain from the existing provider to smoothly transition end users to the replacement Internet Banking Solution.
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, and find out the cost of getting 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 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 getting conversion files from the incumbent provider; 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, issues can be avoided.
9. **Develop a marketing communications/rollout plan.** Due to the intimate nature of Internet banking, it is vital that institutions inform their customers of the upcoming conversion immediately and repeatedly promote the conversion and the new solution using multiple delivery channels — ATM, direct mail, Web site and e-mail. This will help maintain healthy customer relationships. The messaging should increase awareness of the conversion, while presenting it in the most positive way possible. For example, the institution may choose to communicate the enhanced features the new solution will offer, such as personal financial management. If the conversion requires action from the customer, the financial institution needs to clearly communicate these requirements, no matter how insignificant.

   The institution should expect an initial call spike in response to the marketing activity. For this reason, it should consider an outsourced provider that can provide temporary call center services to manage the incoming callers during this time.

Carefully designing and implementing a comprehensive Internet Banking Solution with a highly accredited provider, while conscientiously informing and educating customers bolsters financial institutions of all sizes, from community banks and credit unions to large financial institutions.

Convert to an Optimal Internet Banking Solution

There are ample opportunities for financial institutions to boost the adoption of Internet banking, not only by offering customers the kind of service and capabilities they want, but also by implementing a solution that they can count on. With careful, conscientious planning before even approaching prospective providers, institutions can properly evaluate them based on their ability to cost effectively provide a comprehensive, reliable and secure solution.

Over the last 18 months, First Data has successfully converted more than 100 customers to its Internet Banking Solution

As a global technology leader in information commerce, First Data helps financial institutions ease the transition to an outsourced Internet Banking Solution that more effectively and reliably serves their needs in Internet banking. Top rated in customer satisfaction, features and functionality, marketing support and overall value, First Data currently provides Internet banking services to more than 600 financial institutions. Over the previous 18 months alone, the company has successfully converted more than 100 customers. With First Data, the financial institution experiences a fluid, cost effective conversion process without increasing employee workload—and ultimately ensures customer satisfaction and loyalty to its brand.

Resources

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About The Author

As Vice President of Sales at First Data, Will Ferrell is responsible for generating new sales, maintaining and enhancing business relationships with existing clients and aggressively driving Internet banking adoption strategies to enhance positioning. Will works closely with national and international financial institutions to develop and implement customized Internet banking, marketing and network security strategies. An authority on Internet banking security issues, Will speaks to many large audiences, and has written and presented several educational Web seminars to help protect financial institutions nationwide.

Will has a bachelor's degree in English with a minor in Communication Studies from Virginia Tech.

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