Modern Lending and Banking

Three Steps to Delivering a Superior Customer Experience

Executive Summary

Regulatory actions have forced financial institutions to re-strategize their business models, an approach that could increase or decrease profitability depending on the strategy chosen. Banks cannot just attach fees to static services to counteract any decreased revenue. This is true regardless of how significant the loss, and some losses are proving to be staggering. For instance, debit interchange regulations[1] alone are estimated to have cut industry interchange revenue by as much as $7.0 billion annually.[2] Rather than raise fees, financial institutions must reinvent themselves based on the lifecycle of the customer experience. Reinvention starts with the installation of an "Easy-Banking Button" that streamlines and automates the banking experience to satisfy customers while reducing costs.

Today, the customers are the empowered entities; they are the ones who dictate how and when they interact with businesses. Meeting customer expectations requires infrastructure changes in order to eliminate excess expenses and provide convenient services to customers at a competitive rate.

Banks have a tremendous opportunity to grow their customer base by offering easy banking. Based on calculations from the US Federal Reserve[3] and Census Bureau[4] data, of the nearly 23 million US adults without a bank account, approximately four million are not current customers due to fees and inconvenience. That number might seem insignificant when the industry's largest player has 50 million customers.[5] However, a compelling opportunity for expansion is presented when added to the additional 24 million customers the Federal Reserve defines as "underbanked" (those with a bank account, but who use an alternative financial service such as a payroll card, check casher or payday lender).

Once an organization decides to undertake this transformation and installs the "Easy-Banking Button," executives should follow these three steps to understand customer expectations, strategize next steps and prioritize an improved customer experience across the organization:

1. **Align** customer and business priorities;
2. **Assess** which processes can be optimized to drive customer satisfaction with the highest impact on reducing expenses;
3. **Adopt** a unified, enterprise-wide strategy.

Ombud has identified the implementation of eSignature technologies as a reinvention strategy to benefit the customer. This paper addresses the role of eSignature technologies along each step of reinvention.

[1] In 2012, Section 1075 of the Dodd-Frank Act, the Durbin Amendment, capped debit interchange fees at 21 cents per transaction plus a share of the transaction value and a one-cent fraud prevention adjustment. http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/html/PLAW-111publ203.htm
[2] http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245333051340
[3] http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201303.pdf
[4] http://quickfacts.census.gov/qfd/states/00000.html
[5] http://files.shareholder.com/downloads/ONE/2657490261x0x652147/a734543b-03fa-468d-89b0-fa5a9b1d9e5f/JPMC_2012_AR.pdf

Modern Lending and Banking

Optimize the Customer Experience

Customer experience has become the main driver behind enterprise-wide process improvement initiatives in banks and credit unions. The necessity to speed processes across lines of business, particularly highly-commoditized customer transactions, requires an elimination of paper-based workflows.

As a result, innovative departments in banks and credit unions are collaborating on prioritized enterprise-wide eSignature implementations, transforming the industry.

Banking Benefits

Mobilize the Customer Experience

Accelerate Time to New Account

Access Data Traditionally Buried in Paper Forms

Enhance Security and Liability

Lending Successes

Improve Admin Efficiency

1.5X productivity and 3X loan volume without adding staff

Eliminate Overnight Courier Fees

Realize upwards of $500K savings in first year

Borrowers Complete and Return Documents the Same Day

Loan Docs Returned in 10 Minutes

91%

Cut Loan Processing Time by More Than 80%

Returned in 5 Minutes

66%

More Info

Ombud, Inc. published this graphic in context of an extensive report based on Ombud research from August 2013. The report is available for download in its entirety at http://www.ombud.com/r/esignbank.

Step 1: Align

Business priorities should parallel customer priorities

Aligning business and customer priorities involves installing the “Easy-Banking Button” to provide the advantages of modern banking and lending transactions at competitive rates. Banks that have lost customers as a result of unexpected fee increases for standard services now face the challenge of regaining those customers without negatively affecting the top line. Meeting low-cost/high-value expectations compels reinvention of the entire client lifecycle. Executives who hope to follow in the footsteps of the most successful customer experience legends would benefit from looking to Amazon or Apple for inspiration. However, they would be best suited to emulate banks and credit unions that treat their customers as innovation partners.

Banking Convenience

In 1989—six years before Amazon revolutionized the retail industry with its solely online marketplace—First Direct redefined banking with 24/7/365 telephonic-only banking. With this model, First Direct completely bypassed traditional banking.

Think back to mobile technologies introduced in 1989. The Nintendo Game Boy and Motorola’s MicroTAC, the first analog flip phone, were state-of-the-art. The concept of *anytime, anywhere* banking truly was revolutionary.

Customer access to banks in 1989 was mostly limited to branch hours of operation. The nine-to-five weekday hours and lunch-hour closures were simply not convenient to the typical working person. Although ATMs first introduced self-service into banking in 1967, only about 28 percent of ATMs were located off premise in 1989.[6]

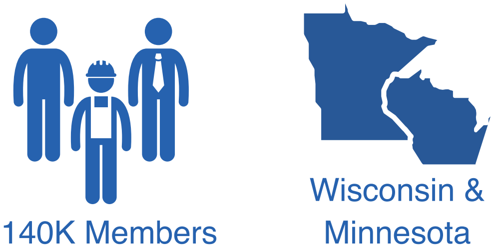
[6] http://www.aba.com/aba/PDF/GR_atmfees.pdf

First Direct not only committed to installing the “Easy-Banking Button” but also to aligning their priorities with customer goals. The company introduced online banking in 1997, and customers are included as partners in continued innovation. Through First Direct Lab, customers vet updates prior to release. This strategy has caused the bank to be ranked fourth overall in the Institute of Customer Service’s 2013 UK Customer Satisfaction Index, just behind online retailers John Lewis, Amazon and Waitrose.[7]

Successful customer-centricity becomes mandatory when increases in regulations affect how customers bank and borrow, as the following case study demonstrates.

Lending Convenience

Banks and credit unions are being forced to adjust processes along with evolving regulations. Some adjustments directly impact how customers have become accustomed to borrowing, and companies need to keep changes in consumer preferences in mind in order to maintain a positive relationship.



Industry Perspective: Royal Credit Union

Royal Credit Union (RCU) did just that. In 2012, regulatory changes forced RCU to acquire signatures for all loans (closed-end) rather than only for the initial loan (open-end).

RCU knew that many of their rural customers could not easily visit an RCU branch. As a result, RCU needed to provide an option for those customers who were not accustomed to physically making a trip into a branch. On May 1, 2012, RCU transitioned to closed-end lending and started offering eSignatures in their call centers.

“Giving our members the opportunity to sign their loan documents without having to stop into an office is very important,” according to Karin Gehrke, Business Process Analyst, Royal Credit Union. “We want to ensure we are fitting our members’ needs instead of making them fit our needs.”

Convenience needs to be balanced with competitive rates. Ease of use only goes so far in building a superior customer experience. Without competitive rates, banks may have difficulty retaining customers through the provision of convenience alone.

[7] http://www.instituteofcustomerservice.com/10560/UK-CustomerSatisfactionIndexUKCSI.html

Competitive Rates

Providing competitive rates is a significant challenge for many U.S. banks as they re-strategize the monetization of retail banking.

Among banks with more than $2 billion in deposits, an average of 10.0 to 11.3 percent of customers changed banking institutions in 2011, according to the J.D. Power and Associates 2012 U.S. Bank Customer Switching and Acquisition Study.[8]

The primary reason? Fees.

In the 2012 Deloitte Center for Financial Services Retail Bank Pricing Survey, Deloitte proposed ten types of pricing models. In exchange for a reduction in fees, 40 percent of customers reported a preference for a digital banking plan, which would provide a limited level of in-person services.[9]

Because banking customers seek competitive rates, financial institutions should prioritize initiatives for streamlining workflows and cutting excessive expenses with the goal of ultimately cutting costs previously transferred to the customer. It is crucial to establish easy-to-use, streamlined transactions for the good of the customer, not just for the sake of the bottom line.

Likewise, anticipated lending rate hikes by the end of 2013[10] might simply translate into decreased loan demand. As the refinance market dries up this is not a positive outlook for lenders, and many major banks are laying off thousands in their mortgage units. Banks will have to be faster and cheaper to compete for existing loans.[11]

Imposing fees on the customer to counteract revenue loss has only compounded the problem. At Twin City Financial (TCF) Bank, fees for checking services led to customer defection so great that income from service charges plummeted 40 percent in two years.[12]

[8] http://money.cnn.com/2012/02/27/pf/customers_big_banks/index.htm
[9] http://www.deloitte.com/view/en_US/us/Services/consulting/industry/f44cc7c20ab8c310VgnVCM3000003456f70aRCRD.htm
[10] http://finance.fortune.cnn.com/2013/07/12/federal-reserve-interest-rates/
[11] http://finance.yahoo.com/news/mortgage-rates-fall-originators-become-222103372.html
[12] http://digital.americanbankermagazine.com/americanbanker/201209?pg=12#pg12

Step 2: Assess

Identify which processes can be optimized to drive customer satisfaction with the highest impact on reducing expenses

As outlined in Step 1, customers want convenience at competitive rates. To provide for this, banks need to understand which processes can be most easily streamlined for the greatest results.

By some estimates, a “free” checking account costs banks $250-300 to service annually.[13] To maintain the feasibility of “free,” banks need to find a way to cut these servicing costs by identifying business lines in which streamlining workflows will have the greatest cost savings.

Strategically analyzing the costs of paper vs. digital processes is essential for comprehensive assessment. All aspects related to operations, transportation, retention and changing regulations should be addressed. It is essential for banks to understand the intricacies of their processes and the monetary benefits of even minor changes.

[13] http://online.wsj.com/article/SB10000872396390444032404578010631476813890.html

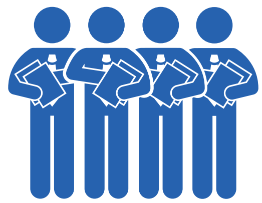
Industry Perspective: National Bank of Kansas City

For instance, in August 2011, the National Bank of Kansas City (NBKC) deployed eSignatures to streamline the online mortgage process for customers across all 50 states.[14] In fact, NBKC's success is founded on the understanding that this process had the greatest opportunity for savings on top of traditional digitization gains.

Historically, NBKC sent and received 25 to 35 page mortgage documents via UPS or emailed them as secure PDFs. Prolonged closing times (in some cases upwards of one month) not only meant a longer wait for the customer but also a potential increase in costs to NBKC who was acting as a correspondent lender for mortgage investors such as Wells Fargo.

Mortgage interest rates are made available to NBKC from those national banks buying the loans, while NBKC agrees to close the loans with the borrower and sell them within a certain timeframe, typically 30 days. The buyer of the loan will honor the interest rate at which a borrower agrees for the 30-day "lock-in period" for free but will only keep the interest rate "locked" thereafter if weekly fees are paid. NBKC's weekly lock-in fees range from $300 to $1,000.

With eSignatures, NBKC receives completed mortgage paperwork one to two days sooner than they did previously. According to an interviewed NBKC loan professional, as of September 2013, NBKC processes about 400 loans per month. Therefore, closing within the lock-in period and saving one-week of lock-in fees per document translates to upwards of $1.4 million bank-to-bank fee savings annually.



+70 Loan Professionals

Process About 400 Mortgages Each Month

+ $1.4M Annual Bank-to-Bank Savings

[14] http://www.americanbanker.com/btn/24_12/e-signatures-for-online-mortgages-1044366-1.html

Step 3: Adopt

A unified, enterprise-wide strategy is essential to maximize results

Starting with the greatest opportunity for cost savings, financial institutions have had success developing a repeatable process and demonstrating value. From there, they expand across business lines for maximum value. Without an all-inclusive enterprise strategy, financial institutions are hard-pressed to develop end-to-end digital workflows.

Industry Perspective: Silicon Valley Bank

Heavily driven by their client base, Silicon Valley Bank (SVB) initiated an onboarding project to streamline and automate the initial client experience. Technological advancements are an expectation of SVB's clientele: technology, life science and healthcare, cleantech, venture capital, private equity and premium wine businesses. SVB provides these highly-innovative businesses with industry knowledge and connections, financing, treasury management, corporate investment and international banking services from 28 U.S. offices and six international offices.

Focusing on improving the client experience, SVB's client onboarding initiative moves away from all paper-based onboarding processes. They previously developed an online format for data entry; it was only logical to also embed the final step—paperwork and signatures—into the platform. The new user interface is expected to go live November 2013. Clients will then be able to log into an online application in which pre-populated forms are available for electronic signing, submission and archival.

Adopt

Traditionally, regulated documents, tax ID and original wet signature card were required for submission of paperwork. Manually processing the wet signature card created a delay of at least one to two weeks before services could be opened. In comparison, introducing eSignatures into the in-person workflow means the original eSignature card is obtained on the spot for immediate compliance. No time wasted, no cost associated.

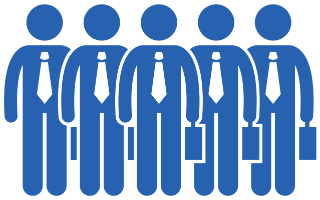
SVB's electronic workflow is meant to be complimentary to their high-touch human element. Person-to-person interaction is important, but the process also has a significant impact on customer satisfaction, as SVB has learned. With their traditional paper-based client onboarding, SVB's customer satisfaction rating averaged 6.5 out of 10.0. That average increased to 8.5 when SVB migrated to partially-electronic onboarding in which documents were electronic, but a wet signature card still had to be mailed.

The addition of in-person electronic signature cards has further increased customer satisfaction ratings to an average of 9.3 out of 10.0. From a client's perspective, the transaction is completed immediately.

Building on this introduction of eSignatures, SVB is targeting specific business units to develop the eSignature framework and expand this function to the entire organization in 2014.

Moving forward, a paperless system will allow for tremendous efficiencies and simplification of back office procedures throughout the life of the account. For example, the process of archiving related policies and procedures was developed long before electronic technologies were an option, and many banks are still leveraging outdated, inefficient procedures. With eSignatures, documents are easily generated, executed and stored. This will give SVB accurate, easily-retrievable records for regulatory purposes and client-services.

6 International
& 28 US Offices



+ 1,600 Employees

592 Billion Payments
Processed in 2012

Conclusion

Banking executives must focus on differentiating their services based on the customer experience and related costs. Taking the banker away from the paper-pushing process facilitates interactive sales practices and more personalized product offerings. In exchange for a reduction in fees, many would prefer digital accounts. These digital accounts require less bank resources while enabling banks to reduce fees for their customers.

Executives have the opportunity to structure their IT strategy around the customer. The following are the steps to do so successfully:

1. Align: Oftentimes, when businesses are prioritizing customer experience initiatives, they are not actually soliciting feedback from the customer or prioritizing the customer's interest. To regain customers lost due to the financial crisis, banks must work with their customers to understand where innovation is most beneficial.

2. Assess: For a more timely return for the customer, businesses need to start with processes that will yield the highest expense reductions when optimized.

3. Adopt: Collaboration across business lines is imperative to understanding the true costs and problems associated with inefficient processes. Without enterprise-wide adoption and prioritization, solutions will not encompass and ameliorate the true scope of inefficiencies. Introducing technologies into a single business line, creating repeatable processes and expanding across business lines is the most effective way to ensure maximum value.

About Ombud

Ombud is the world's leading provider of open research solutions for B2B technology decisions. Combining real-time analysis, interactive social research tools and traditional research methods, Ombud streamlines and simplifies the IT purchasing process for today's global enterprises.

Inspired by ombudsmen, Ombud's mission is to be a neutral intermediary between those buying, selling and recommending enterprise technology. Leveraging real-world use cases and real-time market research, Ombud's open research platform helps enterprises identify their business needs and uncover the best solution for their business in an environment free from compensated opinions, hidden inclusions for criteria and vendor biases.

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