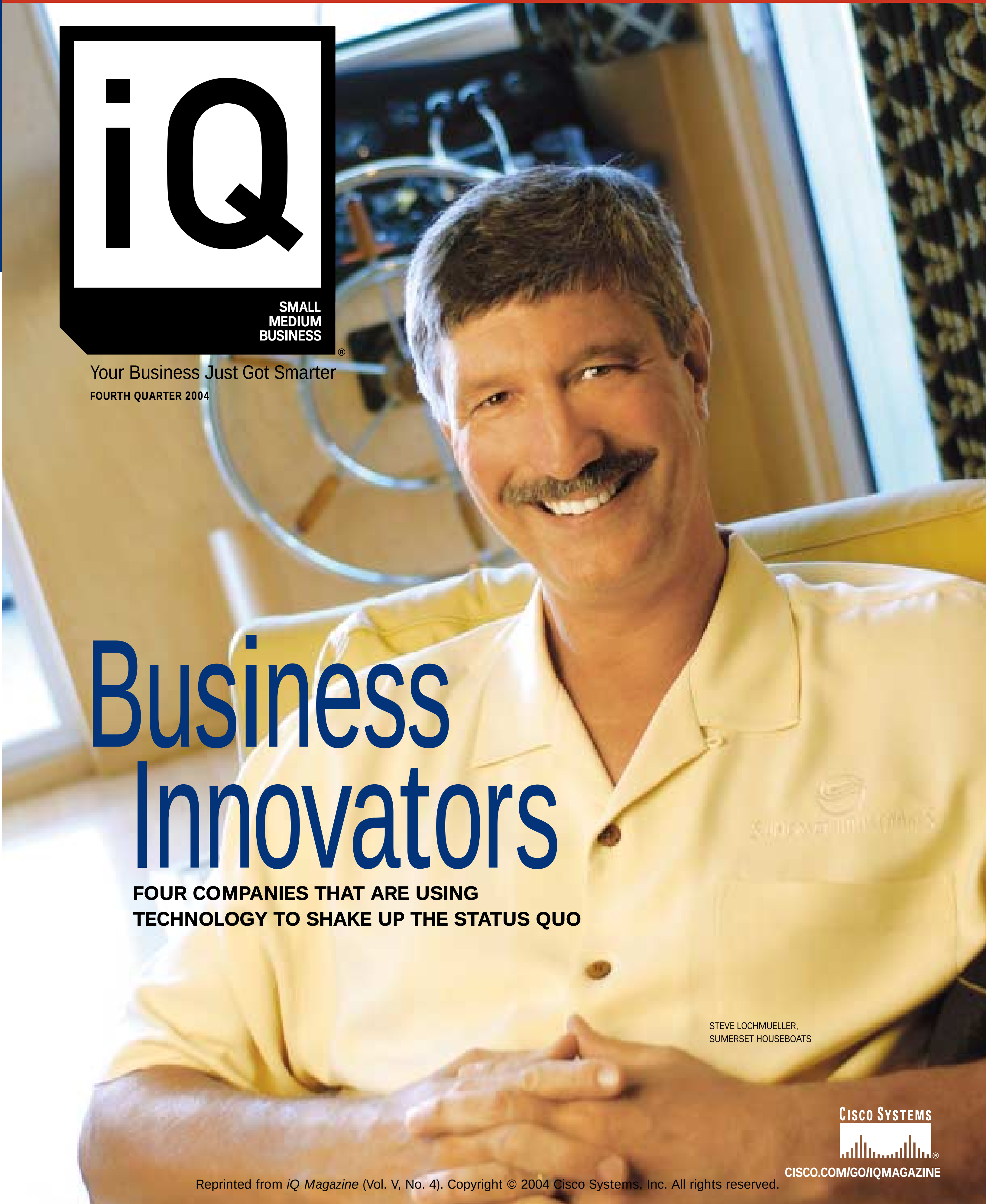
iQ YOUR BUSINESS JUST GOT SMARTER
BUSINESS INNOVATORS ON THE WEB
FOURTH QUARTER 2004



iQ

SMALL MEDIUM BUSINESS

Your Business Just Got Smarter

FOURTH QUARTER 2004

Business Innovators

FOUR COMPANIES THAT ARE USING TECHNOLOGY TO SHAKE UP THE STATUS QUO

STEVE LOCHMUELLER, SUMERSET HOUSEBOATS

CISCO SYSTEMS

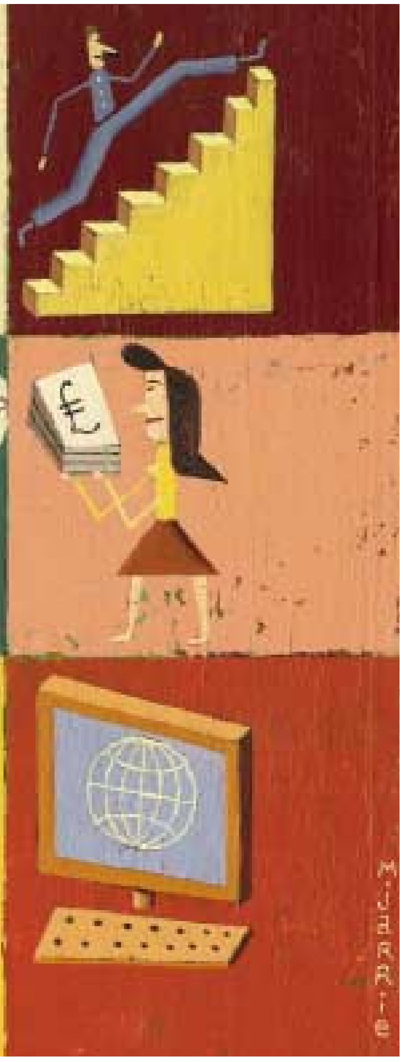
CISCO.COM/GO/IQMAGAZINE

Financial Efficiency

BY G. PATRICK PAWLING

ILLUSTRATIONS BY MARTIN JARRIE

SAVVY FINANCIAL-SERVICES ORGANIZATIONS USE CONVERGED NETWORKS TO INCREASE REVENUES, GAIN EFFICIENCIES, AND BOLSTER CUSTOMER CARE.



WHAT DO YOU GET when you add the demands of new regulations and increased competition to an already overburdened IT network? For a growing number of financial-services organizations, the answer is opportunity. The catch: Organizations must invest in the right tools if they want to seize the day.

"This is an opportunity to drive operational efficiency while you meet all those regulatory mandates," says Guillermo Kopp, vice president of Financial Services Strategies & IT Investments at TowerGroup. "It is almost a requirement to invest to deal with these issues. Legacy systems just can't keep up. You can't tackle this wave of regulatory change without investing in technology. That is a critical issue."

"The opportunities for small institutions are now huge," he adds.

A growing number of institutions and analysts consider the current climate, challenging as it may seem, ripe with opportunity for those financial organizations that have the will and vision to strengthen their networks. The payoff is an ability to meet the toughest compliance issues while increasing efficiencies and revenues.

IDENTIFY THE CHALLENGES

New laws and regulations abound, including the U.S. government's Check Clearing for the 21st Century Act (Check 21), which encourages institutions to take advantage of using digitally captured check images rather than original checks. Check 21 will save billions in the United States alone but will require investment in new infrastructure. The complex and growing U.S. regulatory system includes the Patriot Act, Gramm-Leach-Bliley, and new Financial Accounting Standards Board rules. The net result is longer record-storage requirements, more reporting, and a need for solid security and privacy.

With competition so intense, customer service remains the great differentiator: Highly satisfied customers generate about twice the net revenue as others, according to Kopp.

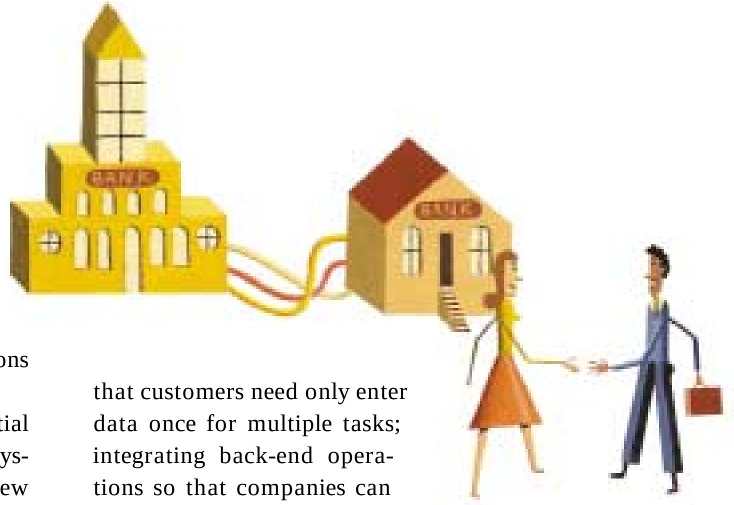
Arizona-based AEA Federal Credit Union traded up to an end-to-end Cisco Systems converged network—one that handles voice, video, and data—that saves it more than $4,000 a month while measurably improving call-center wait times and customer care. The organization's Internet Protocol (IP) Communications system increased internal efficiencies, IP video helps enable more efficient training, and the network improvements have helped increase cross- and up-sell opportunities.

With 40,000 members, 150 employees, and five branches, the seeds of the move were sown about two years ago. Some of AEA's board members worked for city government in Yuma, Arizona, which had moved to a converged network. They were so impressed that they made a converged network a priority in AEA's strategic plan.

CHART THE PATH

One idea for financial-services organizations that want to improve their processes, Kopp contends, is to make use of an emerging array of interconnected applications that employ Web-services technologies.

"There is a new wave of best-practice-focused application service providers [ASPs] that comprise both the application software and the related business operations," he explains.



These applications include loan origination, credit scoring, and mortgage servicing. For insurance, they include claims processing, bills, and collections. Proven best-practice processes operate faster, consume fewer resources, and entail fewer operational errors than the nearly obsolete processing methods used by institutions still lagging in technology investment, according to Kopp.

Consider a retail bank that wants to offer residential mortgages. Conventionally, the bank would expand its systems, business operations, and call center to support the new line. An alternative would be for the bank to cooperate with another institution that already excels in mortgage lending.

"Web-services technologies are emerging as the standard enabler of such end-to-end connectivity," says Kopp. "Legacy applications have trouble integrating with these connectivity layers for information sharing and transaction purposes."

"It entails providing seamless integration between the application supported by one institution and the application supported by another—and then delivering a transaction screen that presents the complete picture to the call-center agent," says Kopp. "The agent needs both the banking and the mortgage data to proactively target a cross-sell target, price the product, quote favorable rates and terms, and then complete an online application."

More robust networks and applications help deliver some specific business benefits, including making all records instantly available to employees, thus increasing cross- and up-sell possibilities; putting self-populating forms online so that customers need only enter data once for multiple tasks; integrating back-end operations so that companies can easily work together to sell related products; using wireless applications to allow employees to be mobile; and broadcasting video over the network to train employees and strengthen security.

"Voice over IP, wireless, and video are very promising delivery channels, and none of those is going to work without some infrastructure improvement," adds Kopp.

One of the big revenue opportunities right now, according to Mika Krammer, research vice president of the SMB Group at Gartner, comes from the ability to employ software that gives a unified view of the customer. What kind of calls has the customer made to the call center? Who were the walk-in contacts? What products are likely to be of interest? When employees can instantly know the customer, they instantly know what the customer might want.

MEASURE THE RESULTS

Network Infrastructure Corp., a Cisco Gold Partner, handled AEA's site survey, planning, and installation. The actual installation started on a Friday afternoon, and by 2 p.m. on Sunday the credit union had a new converged network and a new Cisco IP Phone system.

The entire process, including planning, took seven months, although part of that time was consumed by budget constraints. The cost of the network was $250,000. AEA says it was vital to have a Cisco partner handle planning, installation, and support. "Having Network Infrastructure is critical to us because we do not have the [in-house] expertise to work on the system," says Randy Pettus, director of AEA's member communications center.

"The big [phone] feature is the employee directory," says Pettus. "It lists everybody in the organization, and then you push a button to dial automatically. Another big feature is unified messaging. I can listen to voice mail using Microsoft Outlook, and then I can archive voice messages digitally."

Formerly, agents would answer call-center calls directly. Now an automated attendant routes most calls, which is more efficient. "But by the same token my staff is able to spend a little more time with each call if they need to," says Pettus.

Spanish-speaking callers are asked to hit a number on their telephone keypads for Spanish, and thus are easily identified on call-center screens for bilingual workers. "To me it is a big deal when you can answer that call in Spanish," says Pettus.

View of the Bank

Video is a subject that dominates analysts' conversations about the future of banking. Again, converged networks are part of the equation. Video over IP, as it's called, enables better communication between branches, richer on-site training, more satisfying customer care, and tighter security, and may soon enable a way to analyze customer habits via branch traffic monitoring.

Retailers are already doing traffic analysis, says Susan Cournoyer, a Gartner analyst, using IP video to watch what customers do when they walk in.

"Another aspect is e-learning," says Cournoyer. "Banks are trying to transition tellers to become financial advisers, which requires a lot of training. And with new products, sometimes a customer really wants to have an expert on the line. Videoconferencing will be important, particularly with high-net-worth customers."

Cournoyer also anticipates companies using more IP video in combination with content delivery networks for in-branch advertising and marketing.—G.P.P.

"We are seeing customer satisfaction increasing."

Pettus uses the system to monitor and record agent phone calls for training and performance reviews. "I can sit with an employee, play a call back, and pause to talk about it with the employee."

The call center's abandon rate is right around 3%, down significantly from 10% before the conversion. The software's reporting ability also enables performance benchmarks. One is to have 90% of all calls answered in 25 seconds or less, enough time for cross-selling messages but not so much that customers get impatient.

The primary monetary benefit of the converged network: The credit union was able to jettison half its T-1 lines, cutting its $8,000 monthly access bill by 50%.

GET MOVING

Companies with a limited budget have to closely examine, and adhere to, their business strategies. Companies that have a defensive or cautious strategy should spend enough to satisfy regulatory demands and achieve some operational efficiencies. But more aggressive companies may want to emphasize speed to market.

"This is an opportunity for those who will embrace technology in a more appropriate manner," says Krammer. "They stand to become more efficient and gain business share."

"Lots of solutions are appealing and effective," she says. "Organizations have to think about the most basic things. In their case, the equivalent of food and shelter would be adhering to regulatory mandates. The second level is the opportunity for operational efficiency. Third is the potential for revenue enhancement. It's a pyramid."

PACKET

Branch of the Future

The traditional bank branch isn't going away. "Long-term relationships require a customer touch that you only get when you have a branch you can visit," says Susan Cournoyer, a financial services analyst at Gartner.

Some institutions, she says, are experimenting with ways to make branches more "sticky"—giving customers more reasons to go to the branch. Traditional systems are giving way to converged networks.

To read about how real banks are using their branches and their networks to improve operations, read "Branching Out" in the Second Quarter 2004 issue of *Packet*—Cisco's technical users' magazine—at **cisco.com/go/iq-packetbank.**—G.P.P.

Pyramids don't have tons of room at the top. Often, in a local market, the first one up wins. And that, analysts say, is something you can take to the bank. iQ

G. PATRICK PAWLING, A FREQUENT CONTRIBUTOR TO *iQ MAGAZINE,* WRITES FOR MAGAZINES AND FORTUNE 1000 COMPANIES AND HEADS HIS OWN COPYWRITING COMPANY.

NEXT STEPS

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FROM CISCO

CHECK 21 AND SMB FINANCIAL INSTITUTIONS

Penny Byron, marketing programs manager for financial services in Cisco Worldwide Commercial Marketing, explains Check 21. The Check Clearing for the 21st Century Act, effective October 28 of this year, allows the use of check images in place of original checks.

iQ: Do institutions need new equipment?
Byron: There will be significant initial investment in stronger networks, image-capture equipment, and new databases. But the ROI is both large and quick. Expect complete ROI within the first year and exponential growth after that because better systems attract new business. This is a way for banks to differentiate themselves.

iQ: Will Check 21 enable better detection of fraud and mistakes?
Byron: A branch teller can now take a check for deposit, scan it, and instantly send it to the back-office systems. Previously it might have taken a couple of days—and a lot of employee time—to identify any problems, but now it can be handled instantly.

iQ: How are institutions preparing?
Byron: The first step is a strategic implementation plan. Smaller banks are still in the process of doing this. Cisco and its partners offer turnkey solutions. It all starts with a robust network that can enable applications for Check 21 and for programs that can save an institution money and increase its revenue and share of wallet.

iQ: Where are the greatest efficiencies?
Byron: Physically transporting checks between institutions is a huge waste. There are also improved customer service and selling opportunities. The strongest ROI for banks occurs when you implement digital image capture as early as possible at the branch level.—G.P.P.