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Is it Time for Real-Time Banking?

Why banks should be giving real-time processing a serious look.

Given the current rate at which technology is evolving, the decades-old transaction processes in place at most banks may belong in the Stone Age. Migrating to a real-time processing model that completes transactions with no delays can be a game changer. Real time has the potential to improve the customer experience, increase back-office efficiency, and boost analytics capabilities at a time when real insight is at a premium.

While real-time banking isn't a new concept, it has largely failed to advance in practice. Other industries have leveraged real-time technology in areas such as logistics, thus transforming how goods are shipped, tracked, and delivered. This has often resulted in improved customer service and considerable savings for businesses.

Many banks have instead adopted a host of technologies and mechanisms to provide a near real-time customer experience, particularly on customer-facing channels. Yet these incremental improvements—aimed at improving service and making operations run more efficiently—are becoming elusive and providing even less marginal benefit; most banks have already grabbed the low-hanging fruit. Meanwhile, their core engine and processing technologies have gone virtually untouched and it will likely take considerable investment to modernize them.

What is Real Time?

Ask customers (and even some bank employees) whether today's banks already provide real-time capabilities and many will likely say "yes." After all, when you make an ATM deposit the receipt often reflects your new balance. But try confirming that new balance online or by asking a teller. Behind ATMs, websites, and tellers, each transaction is queued up with many others and processed at a later time, usually overnight. Meanwhile, customers are seeing a temporary credit or debit (called a memo post) made to the account until the batch process is completed.

Several dramatic changes—technology advancements, consolidation, regulatory pressures, increased competition, and rapidly evolving customer expectations—are causing many bank leaders to rethink real-time banking, and considering ways it may contribute broadly to the items on their strategic agenda, including: unleashing product innovation; integrating customer channels (including social and mobile); improving fraud and risk management; reducing back office expenses; and improving their reputations.

Advancements in service-oriented architecture, complex event processing, distributed computing, and virtualization can help banks transform their environments to unlock the power of real-time transaction processing. Closing the information gap—between when transactions are initiated, queued, and processed—opens numerous opportunities for strategic growth. This is significant at a time when many banks are under increasing pressure to lower costs and increase profits.

Banks may use real-time processing for these benefits:

> **Enhancing customer experience.** Much has been written about the rippling influence of the millennial generation. Banks aren't immune. This generation, those largely in their 20s, are generally tech-savvy, networked, and have high-earning potential. They have grown up in a real-time world, and demand better-tailored products and services, greater responsiveness, more convenience, and increased transparency. They are likely to be "underbanked," relying on a stripped-down portfolio of banking services. As a result, they may not yet have experienced the disconnect between their perceptions and the banking reality. But invariably

they will begin to recognize that disconnect, leaving banks to scramble to catch up to millennial consumers' preferences.

Meanwhile, a real-time model could improve the banking experience for the larger customer population as well. Instead of making customers plan around bank schedules—dealing with cut-off times, waiting for transactions to clear, and the like—banks can process transactions instantly and provide around-the-clock service.

Unleashing product innovation. Banks want a broad view of their customers—demographics, purchasing behavior, credit card transactions, deposit and brokerage accounts, loans, and more. With real-time banking, they can methodically pitch products and services that fit customer needs. For example, a bank may combine transaction activity with location services. If a customer makes a large deposit into a checking account, a bank may promptly respond with a bonus rate CD offer and, recognizing the customer's location, extend an invitation to come into the branch and discuss the offer with a named employee. Analytics could also help banks spot potential problems– cancelling direct deposits, declining account balances, or other changes in behavior – signaling that a customer is considering switching banks. In that case, a bank manager may take actions to try to retain that customer. With real-time analytics enabled by real-time transactions, banks can get an up-to-the-minute understanding of customer needs, develop more effective relationships, and create on-the-spot business opportunities.

Improving multichannel integration. Many banks have added new service channels at a dizzying pace in recent years to keep up with customer preferences and technology developments. While these channels are much more sophisticated than a bank's back-end machinery, they are essentially stand-alone systems, providing inconsistent functionality and information. Regardless of customers' skill at using these channels, transactions are still processed after the fact, which can cause confusion.

Real-time processing can help banks deliver a blended multichannel experience. For example, consider a customer who has an opening balance of $250. That customer today deposits $750 through the ATM. In a near real-time environment, the customer must wait a day or two for the bank to process the deposit. In a real-time processing system, that $750 deposit would be cleared promptly, allowing the customer to make a transaction using a bank's debit card, online, or through a smart phone.

Real-time technology improves cross-channel integration in other ways too. For example, a customer may use a smart phone keypad to communicate with an ATM, or even queue a transaction and wave the smart phone in front of the ATM to process it. In addition to opening a plethora of customer experience options, this enhanced channel functionality may help banks improve sales of financial products at branches and reduce complaints and inquiries to call centers. Banks may also reduce costs by driving customers to lower-cost channels, such as smartphones, for routine, low-value transactions, thus freeing time at high-cost branches for more complex, high-value transactions and services.

Strengthening fraud management. Real-time banking can help speed the work of identifying and responding to potential fraud. In the current banking environment, transactions can be initiated on different channels – online, branch, ATM, point-of-sale– with each channel communicating separately with the core platform. Since these channels operate independently, the core platform becomes among the only points of synchronization where banks can identify potential criminal activity.

With a real-time system, which could also incorporate other types of data like location information, banks may detect fraudulent transactions as they happen by analyzing aggregate patterns. For example, a series of withdrawals across several channels—a $500 withdrawal from an ATM in Toronto and a $250 branch withdrawal in Chicago—may appear normal if viewed separately. But when these transactions are examined in aggregate within minutes, they may raise a red flag that fraud is taking place. Without a real-time system, such activity could go undetected for days, weeks, or even months.

Informing risk and compliance decisions. Due to the complex patchwork of channels developed in an effort to appear real time, banks may be challenged in complying with changing industry regulations. Under growing regulatory pressure, most banks will likely need to improve their risk management and reporting capabilities in areas such as fraud detection and customer liquidity.

Additionally, future consumer protection regulations, for instance, may require banks to increase transparency and awareness with respect to a customer's real-time financial status. For example, if a customer is about to initiate a transaction that's going to overdraw an account, the bank may send a text message informing the customer of the potential overdraft (and resulting fees). In this case, banks are not only adhering to regulations but also improving the customer experience.

Increasing back-office efficiency. Many banks spend considerable time and cost on staffing, facilities, and transportation associated with transaction processing. A real-time system that processes transactions promptly at the front end will require fewer manual and automated back-office cycles, and will produce fewer data entry errors, which can lead to write-offs and lower profitability.

Future Forward

The banking landscape in general is poised to dramatically change over the next decade. Many predict further consolidation among the roughly 7,700 banking institutions in the United States. This environment will likely force banks to focus more on operational efficiency and growing equity. Additionally, they may face rising shareholder expectations for risk-adjusted returns and increasing industry regulations and scrutiny.

Real-time banking has a potentially significant role to play in helping banks address their myriad challenges. Very soon, the code will be cracked on real-time banking—creating huge competitive advantage for banks that are ready to make the move.

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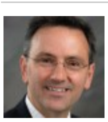

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