6 Business Benefits of Real-Time Banking

Banks face a raft of economic, regulatory, and competitive challenges. A move to real-time processing of customer transactions could give some banks the edge they need moving forward.

The banking landscape in general is poised to change dramatically over the next decade. Many predict further consolidation among the roughly 7,300 banking institutions in the United States[1]. 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.

Meanwhile, U.S. banks face credible competitive threats from foreign banks and nontraditional entrants, such as Internet-only or direct banks, many of which run on real-time banking platforms. These competitors are more technologically advanced, have lower operational costs, and may offer more products and services tailored to their customers. As competitors gain a larger foothold, some U.S. banks may lose market share, customers, and revenues.

In this challenging environment, banks are motivated to consider multiple approaches to shore up their market positions and ensure future growth. This includes one substantial move that banks have addressed only at the margins for years: adopting truly real-time banking systems. (For a related story on this topic, go here.)

Banks' investment in customer-facing channels such as ATMs, websites, and now mobile applications, has generally resulted in near real-time processing for most. But it has also created rigidity and complexity, and is now rapidly approach diminishing return on investment. No matter how fast these various channels serve customers, the core platform still dictates when transactions are processed and this limits the true visibility and action on other channels. In short: The legacy model of batch processing on the core transaction processing system may ultimately limit the value that can be yielded from the system as a whole.

Among the substantial benefits banks may realize by making the leap to real-time banking are these:

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 standalone systems, providing inconsistent functionality and information. Regardless of how adept customers are at using those channels, they still must wait for transactions to be processed at a later time, which can be confusing.

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 up to a day or two for the bank processes that deposit before the funds become available. In a real-time processing system, that $750 deposit would be cleared promptly, allowing the customer to make a transaction using the bank's debit card, whether online or through a smart phone.

Increasing back-office efficiency. Many banks spend considerable time and cost on transaction processing-related staffing, facilities, and transportation. A real-time system processes transactions promptly—at the front end—reducing the need for manual and automated back-office cycles. In the process, it also reduces risks such as data entry errors, which can lead to write-offs and lower profitability. Banks may then shift investment from back-office operations to other areas, such as improving customer service.

Additionally, with a real-time system, banks can make more efficient use of their infrastructure. Computer systems can be freed from running batch processes that last several hours. That processing capacity can be directed instead to running system activities that drive growth. Since these costs are closely tagged to peak usage, and batch processing results in extreme peaks, a real-time approach can smooth out usage patterns, enhance efficiency, and reduce overall data center costs.

Enhancing customer experience. The millennial generation, largely those in their 20s, are tech-savvy, networked, and have high-earning potential. They're also likely to be "underbanked," relying on a stripped-down portfolio of banking services. As a result, they may not have experienced the disconnect between their real-time perceptions of banking and the reality. Many banks will have to scramble to catch up to consumer preferences; in that environment, real-time core banking systems may not be optional.

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

Unleashing product innovation. Many banks are generating and collecting more information about their customers than ever before. But analysis of that information can take weeks, delaying the bank's ability to strike while the iron is hot, offering targeted products or services to customers. Real-time transaction processing coupled with real-time analytics—on demographics, purchasing behavior, credit card transactions, deposit and brokerage accounts, loans, and more—can change that.

Real-time analytics could also help banks spot changes in behavior– cancellation of direct deposit, declining account balances, and the like – that may signal that a customer is switching to a competitor. In that case, a bank manager could more quickly intervene to try to retain that customer.

Strengthening fraud management. With a real-time system, which could also incorporate other types of data like location information, banks could detect fraudulent transactions as they happen by analyzing aggregate pattern of transactions. 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 examined in aggregate across these multiple channels within minutes, these transactions may be recognized as fraudulent. Without a real-time system, such activity might go undetected for days, weeks, or even months.

Informing risk and compliance decisions. Many banks have a complex patchwork of channels that were developed over time, which could make it difficult to respond to and comply 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.

Future consumer protection regulations, for instance, may require banks to provide increased transparency and awareness of a customer's true financial status. As an example, if a customer is about to initiate a transaction that's going to overdraw an account, banks could send a text message informing the customer of the potential overdraft. The customer could either authorize the transaction or not, but the customer is at least notified of the overdraft fees involved and presented with the ability to direct the outcome. In this case, banks are not only adhering to regulations but also improving the customer experience.

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Real-time banking may play a significant role in helping banks address their myriad challenges. With a real-time core processing platform, banks can simplify their channel solutions and reduce the total cost of ownership of their technology infrastructure. Improved efficiency is only part of the story. Real-time banking may also mean happier customers—a big plus in this hyper-competitive banking environment.

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[1] "Quarterly Banking Profile," FDIC, 4Q2011

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