
Web Based Applications for the Financial Services Industry

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Web based applications, a definition: The “Web” is a series of interlinked, hypertext documents accessed via the internet. “Application” is defined as: A set of files that make up software for the user. Hence, web-based applications are a set of files (program) that are delivered to the user over the internet.

In 1993 Bill Gates is quoted as saying: “The internet? We are not interested in it.” In 1994 he said: “I see little commercial potential for the Internet for at least ten years.” By 1998 he had changed somewhat, when he said: “Sometimes we do get taken by surprise. For example, when the Internet came along, we had it as a fifth or sixth priority.”¹

We are long past the ten year time frame mentioned by Bill Gates in 1994, and the internet has delivered on its commercial potential. Today it is used by financial institutions for advertising, marketing, email communications, online banking and more. While these uses of the internet have yielded great benefits to financial institutions, the biggest conversion and benefit is yet to occur: the transfer of key applications from client server to web based delivery. First, let me provide a brief historical perspective.

In 1983 the vast majority of accounts were opened, and loans were closed, by handwriting or typing documents. At that time, the account opening and loan closing process was on the brink of significant change. Although many companies had developed and introduced personal computers into the market prior to 1981, it was IBM’s introduction of its personal computer in August, 1981², that provided the

impetus for the utilization of personal computers in the business market. This trend did not go unnoticed by financial institutions and vendors to financial institutions.

By 1983 software programs had been created to collect borrower data, perform payment and disclosure calculations and select and complete the required documents for the loan transaction. The two dominant companies in the delivery of these software programs to financial institutions were Bankers Systems, Inc. and CFI ProServices, Inc. The implementation of lending programs proliferated throughout the financial services industry during the rest of the decade and into the early 1990's.

With the passage of the Truth in Savings Act in late 1991, and the release of its implementing regulation in 1992, further impetus was provided to financial institutions to deploy client server technology for the acquisition of account holder information, completion of the disclosures required by the law and the selection and completion of the account opening documents. Again, Bankers Systems and CFI ProServices were leading providers of account opening software to financial institutions. The internet was not even a consideration at this time.

Now, fast forward to 2008. The internet is pervasive within financial institutions. Email is the standard for communication, whether it is used internally between employees or externally with account holders. Internet banking is available at most financial institutions. What is Internet Banking? As defined by Encarta®, World English Dictionary, it is a system of banking in which customers can view their account details, pay bills, and transfer money by means of the Internet. According to Forrester Research Q107, the number of households engaging in Online Banking will grow from 46 million in 2006 to 71 million in 2011. However, the vast majority of financial institutions today continue to provide the basic

account opening and lending platform functions via the personal computer, client server based technology.

Only 2% of U.S. financial institutions offer automated account opening today. This is a figure that is projected to grow to 18% to 20% by 2010.³ What is meant by “automated account opening” or as I refer to it: Web Based Account Opening and its cousin, Web Based Lending? The level of sophistication of Web Based Account Opening and Lending activities by financial institutions is varied. There are really three levels of web application activity today. I call them: Print and Submit; Complete Online and Submit; Complete and Open. What is each of these?

Print and Submit is the display of an application on the web site of the financial institution, but it can only be completed by the user printing the application and mailing or taking it to the financial institution. In this case, the account is funded by mailing or taking the funds to the institution.

Complete Online and Submit is a step more advanced than Print and Submit, but still is not a truly integrated account opening function. In this case the user completes the application while on the institution’s internet site, and when they are completed with the application, the user clicks the “submit” button at the end of the application. What happens to the application after the submit button is hit?

Typically the application is sent to an email inbox or fax machine. Someone at the institution is assigned to manually handle the application from that point forward. In these cases, the user can mail in the funds to be matched up with the application at a later time; the user can take the funds to the institution; the institution contacts the user and makes arrangements to meet and receive the funds.

One of the inherent “process issues” in the Print and Submit and Complete Online and Submit is that the process of opening the account may be interrupted at some point. If this occurs, the application is never completed (or delayed) and the financial institution loses a potential account holder. A complete and open system allows for a higher percentage of completed membership, as has occurred at E1 Financial Credit Union. Before implementation of a Complete and Open system, membership applications were getting lost. People would fill out the necessary information and they were asked to fax or send in the application, and someone would follow up with them. However, for whatever reason, not all applications received a follow up contact. Consequently, a lot of applications didn't go through, according to the CEO.

Complete and Open systems are the most sophisticated, although they vary greatly in their functionality. The minimal functionality of these systems is to allow for the completion of the application by the user over the financial institution's web site and to allow the funding of the account via that web site as well. As stated above, very few institutions are providing this level of functionality today. Even if they are, they may not be offering the cross selling of accounts, switch kits, identity verification online or integrating the account opening system with the loan application system, which is offered by the most sophisticated systems.

You may be asking yourself: Why would I want to become involved in offering Complete and Open web applications? Two reasons are: Growth and Income!

Growth will occur through the availability of the application over the internet; through completing the entire process over the web and not losing applications; through cross selling of accounts AND loans when the consumer is in a “buying mode”; through access to, and meeting the expectations of, Gen Y.

MeridianLink, the developer of LoansPQ and XpressAccounts, says that customers have experienced, on average, a double digit increase in new account holders since the implementation of their web based account opening system, XpressAccounts. In addition, as stated above, the Complete and Open systems eliminate the lost, misplaced or ignored application. The application is not sent to a fax machine or email inbox to be manually handled. Instead, the application is reviewed electronically, and the prospective account holder is provided with a decision on their application within a few seconds of filling in the information on the application and submitting it to the institution.

While cross selling of accounts occurs at the time of becoming an account holder, the real growth opportunity is in the cross selling of loans at this time, as well. By using information provided and acquired during the application process, MeridianLink’s XpressAccounts works with its LoansPQ product, and if the institution’s guidelines are met, the integrated system offers refinancing and consolidation of various consumer loans to the new account holder, before they have left their current web session. This provides for an increase in loan applications and closings as well as accounts, according to MeridianLink.

According to McQueen Financial Advisors, there are 80 million consumers comprising Gen Y.⁴ Not only do they represent a market for deposit products, but over the next fifteen years they will become the

largest lending market as well, according to McQueen Financial Advisors. In addition, according to Forrester Research, members of Generation Y spend 28% more time online than even Generation X.

What is this group of consumers looking for in a financial institution relationship?

They are looking for convenience, competitive rates, good customer service and a feeling of community according to the McQueen Financial Advisors report.

For the all critical Gen Y banking customer, web based account and loan functions are a natural fit. As demonstrated by the information above, they are dedicated users of the online banking services available to them today, and the highest level of web based processes described above fits well into what they are seeking: convenience, competitive rates and good customer service. In a fully integrated, web based system; the level of convenience is very high: with the use of e-signatures, the account opening and funding can be accomplished without a trip to the institution. Obviously this is more convenient than filling out an application online, and then having to take it and/or the initial deposit for the account to the institution. Also, if the institution utilizes an electronic switch kit, the account holder can move their entire relationship from another institution to their new institution.

As stated above, the web based Complete and Open account systems provide convenience to Gen Y members, as it is available when they want to use it; and is provided in a format (web based) with which they are intimately familiar. This delivery method provides the institution the ability to offer more competitive rates, as the cost of providing the service over the internet vs. a branch is estimated at as much as 20% less over the internet, according to Javelin Strategy and Research. Good customer service is also provided to this group, as they receive immediate answers and feedback on their application(s),

and do not have to travel to the institution or wait for someone to call them back with a decision on their application.

In addition to growth as a significant reason to embrace web based Complete and Open applications, increased income to the institution is another reason financial institutions should embrace this technology. What amount of annual income is generated by a new consumer loan at your institution? \$500 per year? \$750 per year? \$1000 per year? If you can add loans for an incremental cost of less than \$10 per loan, the increased income opportunities to the institution are significant. Also, the access to the system on a 24 x 7 basis can increase the number of loans booked by the institution, providing for additional revenue based on volume as well as a greater margin on each loan.

Web based systems also provide an improvement to the net income, by reducing internal expenses, both in terms of the maintenance of the program and increased efficiencies that allows the same number of employees to handle more accounts and loans. By the very nature of a web based system, the update on the core system is performed by someone else, and not by the internal staff of the institution. Enhanced features, new and updated calculations, forms programming and general network and hosting technical issues are just some of the areas where an institution will save on internal resources. On the account opening side of the institution, a new account can be handled without any involvement of an employee, especially if the institution has implemented an E-Signature program. This simply allows for the institution to grow its account holder and deposit base without adding a single new employee in that function. On the lending side of the business, the application, decision and loan document production may all be accomplished without employee involvement if desired. The closing of the loan can still take place in person, but since the other activities of the loan officers or loan assistants has been reduced, the

same number of people can handle an increased number of loans. The exact savings is hard to say, given that each institution can implement the program to meet their strategic objectives and capacities, but it is clear each one should experience a cost savings in this area.

In conclusion, we are not talking about a futuristic paperless or checkless society, but a real society available today; in fact, the migration has already begun. There are several hundred financial institutions throughout the country that have implemented web based account opening, funding, cross selling, loan decisions and closing. The technology has matured as the customer has adopted the use of the technology. In a sense, it is a perfect storm, but with a bright outcome for financial institutions: Increased Growth; Increased Income; Reduced Expenses. If you are not looking at web based applications today, you owe it to yourself and your owners to look at it tomorrow.

¹ Various Internet Sources, www.quotesandsayings.com

² Introduction of the Personal Computer (PC) – The Rise of the Pc <http://ecommerce.hostip.info/pages/848/Personal-Computer-PC-Introduction-RISE-PC.html> - Introduction of the Personal Computer (PC) - The Rise Of The Pc

³ Celent: Online Account Opening: Raising the Bar, June 2007

⁴ McQueen Financial Advisors, How to Market to Generation Y, http://www.m-f-a.com/News.htm#How_to_Market_to_Generation_Y