
ONLINE ACCOUNT OPENING:

Act Now or Pay Later

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Nearly half of consumers have attempted to open a checking account online (45%) in the past 12 months alone.⁸

- Javelin Strategy & Research, 2009

With American consumers routinely managing, opening and funding accounts online, the overwhelming need for cost-efficient online account opening (OAO) has arrived and the time to act is now. According to Javelin Strategy & Research, 65 million consumers will open deposit accounts online in 2012, a dramatic increase from its 2007 level of 23 million.¹ This increase corresponds to a compound annual growth rate (CAGR) of 23 percent; an upswing in deposits for most banks and credit unions with solid OAO strategies.¹ All of which emphatically conveys consumer willingness to adopt technology and institution readiness to expand online services.

What's more, institutions with sound OAO see open and fund rates averaging anywhere from 50 to 70 percent or higher - more new accounts than most community financial institutions are seeing in their average brick and mortar branch. A proper OAO process also empowers these institutions to capture a younger, more affluent, more educated customer base. According to Forrester Research, online applicants have an average age of 38 and income of \$56,259 versus an average age of 42 and income of \$44,350 for offline applicants.⁶ Forrester research also found that 46 percent of online applicants have a college degree versus 27 percent for in-branch applicants.⁶

The focus on deposit accounts also stems from an industry-wide need to compete with direct banks (e.g. ING Direct, HSBC Direct, etc.) and mega banks. In fact, Internet-based financial institutions have nearly doubled their penetration over the past two years. According to results from a recent survey from SYNERGISTICS Research Corp, two in five households now have a banking relationship with a net-only institution, twice as many households (one in five) that banked with a net-only institution in 2007.³

For instance, ING Direct has delivered easy, fast, OAO to the mainstream, all encompassed in a beautifully simple website that supports a powerful, international brand. This, along with highly targeted search marketing campaigns, and a massive TV advertising initiative has grown (the state-side portion of) ING into an \$81 billion juggernaut in just eight years.

There is an increasing demand to open accounts online, and financial institutions are feeling the pressure to retain existing account holders while readily attracting new ones; but they need to focus on product as well as process to grow OAO. An innovative product married with a simple, secure online account opening and funding process empowers traditional financial institutions to compete with the direct banks and mega banks that lead in this arena.

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Significantly Reduce Costs Per Account

Online acquisition is considerably more cost effective than the traditional means. Financial institutions that offer OAO for deposits will share in cost savings that are projected to average \$2.6 billion industry-wide in 2012 alone.² For example, the average cost to acquire a checking account holder in branch is \$328 versus \$150 for each account successfully funded directly through OAO (a whopping \$178 reduction in cost per account).¹

Further, there is an immediate and strong ROI that comes with integrating an OAO solution, as evidenced by increased account retention, greater sustained growth in new accounts acquisition, and reduced cost for acquisition. Forrester Research recently surveyed 24 panelists - members of its eBusiness, Channel And Product Management Research Panel from financial services firms - and 20 of 24 (83 percent) agreed that acquisition costs are lower on the Internet, and that there is significant cost savings when consumers research products online versus in another channel.¹

Smoothly, Efficiently Integrate OAO

Although the technology cost concerns are likely more prevalent among institutions with well-established in-house solutions, there are customizable vendor solutions available that can effectively overcome these hurdles. Many traditional OAO solutions include identity verification, applicant screening, automated decisioning and ACH funding. The goal, however, is to find a vendor who can help your institution improve the conversion of those applications into actual accounts. Simple, powerful lead management coupled with a system that offers best practices for follow-up and removes problematic auto-deny features will help your institution focus on what it does best - providing your account holders with best possible personalized service.

The following items are mandatory features to consider when choosing the all-important OAO vendor solution:

Application

A simple link placed on a website, microsite, or another online channel that allows applicants to apply for an account online. Applications should also be drawn from traditional channels (branch, etc.) to centralize processing - all of which helps streamline workflow, optimize man-hours and consolidate institution-wide efforts.

Authentication

Where applicants undergo ID verification, authentication, and OFAC checks. Optional 3rd party debit screening services like ChexSystems, TeleCheck or Deluxe Detect should also be integrated into the system to help expedite the decision process, and reduce the need for manual re-keying.

Funding / Decisioning

To reduce drop-off frequency, increase funding rates and help streamline the on-boarding process, funds from an applicant's existing account(s) should transfer immediately to their new account(s) via ACH.

New Account On-Boarding

It's crucial to first have an online branch solution with a robust enough platform to easily manage all OAO applications, so that, once funding is complete, all that's left is to simply follow your institution's on-boarding process for new accounts.

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Open Accounts At Your Domain

Choosing a platform that keeps your online application on your domain solves a major OAO consumer concern. Applications that reside on a domain other than your own (usually that of the OAO provider) are unfamiliar to the consumer and likely to discourage them from moving forward in the process. As the consumer clicks to Open Now, they are whisked away to a different domain. Even though the application might look similar to your website, the consumer assumes the foreign domain is a fraudulent one, and closes the window without proceeding - increasing drop-off during the application process. By keeping online applications on your domain, the consumer witnesses a seamless account opening process, and you witness an increase in completed applications.

Best Practices

Once funding is complete, it is advisable to use one management console to handle applications from multiple channels to simplify your institution's on-boarding process for new accounts. OAO that tightly integrates with an online branch and a sound lead management engine helps increase applications, improve conversion rates, and drive efficient back-office workflow. Further, it is imperative to partner with an OAO provider that offers best practices for application processing, hands-on training for key staff members, workflow integration and compliance consultation.

The implementation of an OAO solution will not supplant the traditional brick-and mortar branch. Instead it should be viewed as technology that augments employee efficiency and improves the level of service for new account holders. To that end, OAO can effectively be adapted to branch and customer service center use. The use of OAO frees up more time for branch representatives to embody the role of personal banker; one who offers a more customized new account on-boarding experience and focuses on setting up online services or cross-selling as appropriate to help meet account holders' needs. With easier access to information through OAO technology, employees can ensure completion of account opening and cross-sell or encourage adoption of sticky services, such as online banking and bill pay, when account holders are most vulnerable to attrition.

It is also recommended to designate an online branch Team Leader and Lead Account Opener. This not only establishes accountability and helps streamline process but also ensures that key individuals are monitoring and disseminating the correct information to their respective teams. Also, remember that your online and in-branch environments should mirror each other with regards to customer service. In other words treat your online account holders with the same courtesy as those who prefer to bank in-branch. Establish relationships with online account holders by engaging them, asking them questions, and working closely with them to do everything you can to open the account. These key insights can then be imparted to your in-house team to help improve institution-wide customer service efforts, and to ensure account holders and potential account holders are getting the same preferred treatment in both environments.

Embrace Technology – Reduce The Cost of Entry

Research shows that new account holders acquired online are less costly to serve than those in a branch or over the phone. Case in point: a recent case study of SunTrust conducted by Forrester Research discovered that the five-year profitability of avid eBill viewers is almost 2.5 times that of the average bank customer.¹

The increasing consumer willingness to adopt technology plays a crucial role in the overall effectiveness of OAO. Incentive-bearing products with requirements like debit card usage, online banking, eStatements and automatic deposits reduce service costs and/or increase non-interest income for financial institutions. Equally important, these qualifications cater to the modern banking consumer, one who is more willing to embrace your cost-saving technology.

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The Online Branch – Your Most Important Channel

The online channel is quickly becoming the most essential tool available to financial institutions for new account holder acquisition, new account acquisition (pertaining to existing account holders who decide to open an additional DDA) and reduced attrition. When properly integrated, this channel can help financial institutions regularly outpace competitors online, where consumers are more profitable on a multitude of levels. In fact, according to TowerGroup, top-tier banks report that online banking account holders maintain up to 50 percent more accounts and generate 20 to 40 percent more profit than their in-branch counterparts.⁵

The online branch offers substantial cost reduction in contrast to the traditional, brick and mortar branch. The cost savings between implementing an online branch and actually constructing a physical one are clear, but there are many additional advantages to consider. For instance, this online channel eliminates the costs of extending branch hours and staffing up to accommodate the anywhere, anytime modern banking consumer; one who prefers to access their account information, pay bills, transfer funds, etc. without visiting a physical location.

Whatever the case, it is crucial to have an online marketing system that provides lead generation to garner more accounts, while decreasing marketing costs. Always consider the importance of SAS 70 Type II hosting, along with alternative, cost-effective marketing channels like Search Engine Optimization, Paid Search Marketing, word of mouth marketing (refer a friend programs) and a robust content management system when developing and implementing an online branch.

Over 71 percent of Internet users research their next bank account online.⁷ Fifty-two percent of them begin this research on a search engine like Google and Yahoo (Forrester Research).⁴ When effective online marketing is coupled with an OAO system, financial institutions can substantially increase online applications per month (with a 50 to 70 percent open and fund rate) with a properly managed online branch.

OAO supported by research-driven products that are tailored to people's passions, along with highly targeted online marketing campaigns help grow deposits and acquire new younger account holders in the short-term: a highly valued initiative among financial institutions. When one considers that Generation Y is 91 million strong and now the largest generation in U.S. history, it's easy to understand why banks and credit unions are eager to attract this audience, one that will largely define the banking consumer base in the coming years.

The good news is OAO not only attracts consumers from a younger market segment, but appeals to a widespread audience. According to Forrester Research, nearly 30 percent of people between the ages of 21 and 40 applied for deposit accounts online in the last 12 months.⁶ This is a clear sign of what consumers need and expect from their financial institution. While this may be partially attributed to recent availability of OAO and more attractive products, it is important to consider the banking behaviors of a wide cross-section of consumers that indicate increased uptake over the next few years.

Additionally, these consumers expect more from online banking than the basic "ATM functions" of checking account balances and transaction summaries. This tech-savvy market segment grew up with the Internet and take online convenience for granted, expecting their institutions to provide easy remote solutions, such as branch-free OAO for competitively priced products.

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OVERCOMING ROADBLOCKS

COMPLIANCE

Because Internet banking is now an integral part of the mainstream, it naturally follows that financial institutions need a strong online presence. With these advances comes a new set of compliance issues and risks. To prevent confusion, the Federal Reserve Board now provides amendments to several key consumer regulations affecting how electronic disclosures are provided.

Statutory and Regulatory Requirements

Generally, the same federal regulations apply whether the consumer is opening an account online, on paper or at a branch. Keep in mind, however, that many of your online account holders will still refer to any printed materials (i.e. PDF files) for disclosures and transactions. To that end, financial institutions should review disclosures in all deliverable forms to ensure consistency.

Electronic Signatures in Global and National Commerce Act (E-SIGN) provides a structure around for electronic transactions, including the use of electronic signatures and records for items like signature cards, account terms, and any disclosure requirements. The following are some key requirements for financial institutions conducting business electronically in a consumer-direct capacity:

- The signer must intend the signature to have the same force and effect as a wet signature
- The signature must be verifiable as belonging to the user
- The signature must be attached or linked to the document in a way that authenticates the integrity of the electronic signature and document contents

The consumer must agree to do business electronically, agree to the contract terms, and agree that they have read and received the disclosures and account agreement. Including a document on your web site that acknowledges, up front, the signers intentions and lists the documents the signatures are effective for is one possible method for meeting E-SIGN requirements.

Consistency and Clarity

The rules are no different for Internet banking disclosures as they are for your paper compliance disclosures: A guideline of consistency and clarity is a good rule of thumb:

- Be sure online disclosures meet the regulatory requirements
- Be sure online disclosures match your programs and policies
- Be sure online disclosures are consistent with printed disclosures

USA Patriot Act – The USA Patriot Act requires financial institutions to develop, at minimum, reasonable processes for verifying the identity of any person seeking to open an account, maintaining the information used to verify the person’s identity and to determine whether the person’s name appears on any lists (i.e. *OFAC Watchlists*) of known or suspected terrorists provided to your organization by the federal government. During the OAO process, the applicant should be notified of this regulatory requirement, personal information will be gathered to ensure compliance with Section 326 of the USA Patriot Act and their name will be checked against appropriate government databases to ensure the individual is not listed as a suspected or known terrorist. Once the account is opened the responsibility will lie within your hands to ensure ongoing compliance with the USA Patriot Act, Know Your Customer (“KYC”) Rules, Suspicious Activity Monitoring and any other parts of the Anti-Money Laundering Program as required by Section 352.

Identity Verification – Authentication of an applicant’s information plays an essential role in OAO. The current FFIEC guidance will be followed when developing these processes for authenticating the

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applicant's information during OAO. Knowledge-Based Authentication should be used which provides a series of challenge-response questions (*e.g. out of wallet questions asked of the applicant*) designed to be answerable only by the true applicant.

Out-of-wallet questions come in two types: tradeline and non-tradeline. Tradeline questions are based on credit-related information (e.g. what is your monthly mortgage payment?) and non-tradeline questions are generated from public records (e.g. at which one of these addresses have you lived?). The standard configuration includes a combination of both types, when available and the total number of questions that are asked of each applicant is based on the amount of data in the applicant's credit file.

If "real" question cannot be generated based on limited information, then "simulated" – or "faux" – questions should be substituted in either or both cases. All questions are presented in a multiple-choice format. "Does not apply" or "None of the above" is always presented as a choice and can be correct, adding difficulty for fraudsters trying to guess and answer. Additionally, the payment and property questions are presented in ranges so that the true applicant can easily identify the correct answer, even if he or she does not know the exact amount. Random presentation of the questions prevents fraudsters from learning the system through multiple attempts.

FRAUD

While security concerns play an important role in the release of OAO solutions and in the actual consumer experience, financial institutions generally find that they are not a hindrance to the integration process. With more security and compliance measures mandated by the FFIEC and other regulatory bodies, financial institutions are required to provide robust security and authentication measures, while offering a user-friendly customer experience that encourages repeat visitation.

The ability to provide real-time authentication in-house or through a vendor partnership addresses the main security issues on the part of the financial institution. So, much like a virtual branch does not supplant the need for a physical one, OAO should enhance the effectiveness of standard fraud prevention protocol not replace it. In other words don't abandoned your current best practices in the fraud prevention capacity just because you've implemented an OAO solution. Instead, work closely with your OAO solution provider to "red flag" possible identity theft and suspect behavior to protect new and existing account holders.

SUMMARY

Whether a financial institution is successful with OAO is largely up to the institution itself. Here are some key insights on best practices:

- Designate an online branch Team Lead and Lead Account Opener
- Create an online and in-branch environment that always puts the account holder first
- Treat your "online" account holders with the same courtesy as those who prefer to bank in-branch
- Establish relationships with online account holders by talking to them, by asking questions, and by working with them to do everything you can to open the account
- Work as a team and share key insights

The time has come for financial institutions to provide account holders with – and actively promote – robust, useful online-banking platforms to help them manage, monitor and move their money at their convenience. In 2008, hundreds of thousands of depositors seeking shelter for their savings sapped billions from stumbling banks. As a result, anxious Americans have taken a flight to safety, leaving many financial institutions struggling to attract and retain deposits. But industry unrest and a tenuous economic climate make properly integrated, well-promoted online-banking services a golden opportunity for financial institutions.

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Comprehensive solutions supported by a best of breed OAO process satisfy the consumer's craving for financial control, tools to monitor and protect their accounts, and a means to consolidate their financial relationships online. All of which is good news for any financial institution that wants to stay technologically viable and is ready to embrace all of the cost saving, streamlining advantages of OAO. By contrast, those that are tentative to act may well face dire consequences, as the competition increasingly adopts and effectively markets their respective online banking efforts. In any event, financial institutions that have yet to fully realize their potential online are faced with a crucial decision: act now or pay later.

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