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## Hot Banking Tech Companies To Watch In 2009

Profiles Of Technology Companies That Address Banking's Changed World

This is the second document in the "Hot Companies To Watch In Financial Services" series.

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### EXECUTIVE SUMMARY

The banking industry is going through its most challenging period since the Great Depression. Bank capital structures are stressed because of write-downs and write-offs, formerly high-flying investment banks face the more regulated world of retail banking, and customer care gets even more important as banks set off in hot pursuit of deposits. This report provides brief descriptions of six companies meeting diverse or emerging banking industry needs that range from better ways to reduce fraud costs, more effective tools to manage the banking workforce, more meaningful customer interactions, and partnerships that are tackling the very big and nasty problem of mortgage defaults.

### IN THE MIDST OF BANKING INDUSTRY PAIN, NEW IDEAS AND OPPORTUNITIES EMERGE

The banking industry looks nothing like it did at the start of 2008. The big independent investment banks — Lehman Brothers, Merrill Lynch, and Morgan Stanley — have disappeared, been acquired, or will be tested in the very different world of retail banking. Washington Mutual went down as the biggest bank failure in history, and the girl or boy next door — community banks and credit unions — suddenly looked better to consumers and technology marketers than they had in the past. As the banking industry confronts new business challenges, a deep, global economic recession, and some very onerous regulatory changes, Forrester has seen new solutions and vendors emerge to help the banking industry navigate through this historic period.

Forrester has gathered a list of several emerging or smaller companies to watch in 2009 and into the future. These companies are worth watching because of how they've targeted overlooked segments like small banks and credit unions, improved the productivity of bank resources, reduced a growing bank threat, lowered technology deployment risk, or offered a new way to tackle a core process. This is not a comprehensive list, nor is it a Forrester vendor recommendation or rating.

### COMPANIES TO WATCH IN 2009

Forrester has identified six companies to watch in the banking technology market in 2009.

#### Communication Intelligence Corporation (CIC)

Communications Intelligence Corporation ([www.cic.com](http://www.cic.com)) provides legally binding and compliant electronic signature solutions targeted at the contract execution needs of banks, insurers, and public-sector markets. While electronic signatures are a mature technology, what makes CIC's solution for the financial service industry noteworthy is the company's recent focus on a significant industry pain

point, defaulting home owners. CIC has struck a partnership with CSC that, while complementing a number of CSC's core banking application offerings, is being delivered as one of the tools that CSC is providing to facilitate mortgage loan modifications and workouts and improve loss mitigation process efficiency. There are a lot of parties involved in a mortgage workout, including lenders, mortgage servicers, credit counselors, and, of course, attorneys. CIC's SaaS-based electronic signature solutions help speed up a very lengthy and painful process that can often take as long as 90 days, reducing the time to less than three days, to say nothing of borrower stress levels.

- **Why it's important.** At the end of the third quarter of 2008, the seasonally adjusted total mortgage delinquency rate was the highest recorded by the Mortgage Bankers Association.<sup>1</sup> And even with the FDIC's loan modification workout tools and a great advocate, Sheila Bair, for modifying troubled mortgages, only about 6,000 out of the 28,000 IndyMac mortgages have been modified. As the economy deteriorates further, the number of foreclosures will increase, along with the call for more regulation to move more borrowers through the process faster and more fairly. Making the loan modification process virtual shortens the amount of time the process takes, provides greater visibility to different process stakeholders, reduces borrower stress, and helps prevent the home vacancies that lead to a loss of general home values in the market. There have been few technology vendors that have targeted the mortgage workout market, despite the obvious need and the far-reaching economic consequences if the industry maintains its "business as usual" approach. Partnerships such as the one struck by CIC and CSC bring technology that addresses a complex and very real economic and social problem.

### Cypress Software Systems

Cypress Software Systems ([www.go-cypress.com](http://www.go-cypress.com)) enables community banks and credit unions to have access to the same kinds of loan application decision and tracking tools used by much larger banks. The company offers a variety of applications that target the needs of different institutions — large and small banks and credit unions; different loan types (consumer, mortgage and small-business lending); and even how a lender wants it packaged — from on-premise to SaaS. The company's Web site makes it easy for banking technology shoppers to find what they need with a "Who Can Use Our Software?" tab that defines specific software targets by whether the visitor is a banker, credit union, a credit union service organization, or consumer finance company. The site goes a step further by asking "What Do You Want To Do?" and then presents an array of real business drivers, such as increase efficiency, manage risk, ensure compliance, or improve quality control.

- **Why it's important.** The market for loan origination software is clearly challenging right now. Banks — and credit unions — are looking for the right kind of borrower with the right kind of credit score, even with "encouragement" from the Federal Reserve. But lenders could lose just the kind of borrower they want if the decision takes too long and the borrower turns to a competitive lender. The lending business has been plagued by lots of manual work that's slowed

the process down and, in many cases, has done little to protect the lender. While Cypress is not alone in offering automated decisioning, its delivery options provide lenders with the flexibility to start with SaaS and then move in-house should their IT support or business model change — a plus in an uncertain economy. The company's Web site does a good job of accommodating the needs of bank tech shoppers, too, making it easy to match the solution with the lending and business need.<sup>2</sup>

## Marketcetera

Marketcetera ([www.marketcetera.com](http://www.marketcetera.com)) was founded two years ago with an interesting value proposition: The trading operations of investment banks would migrate from homegrown systems to open source models. While Marketcetera didn't predict Wall Street's collapse, it did predict a need for new trading strategies, delivered fast and at a low cost, that didn't consume lots of IT cycles for code development and integration. Marketcetera's platform includes market data adapters, broker connections, and trade/order routing. Marketcetera's open source model provides flexibility for fast code changes and better visibility into the underlying code. The company's open source framework is backed by a variety of connectors for commercial applications such as market data feeds, deployment and management tools, and a suite of professional services to support the client, including training.

- **Why it's important.** With all the media coverage of the downfall of the big investment banks, it's tempting to think that trading has also fallen off. In fact, market volatility has driven an increased number of trades as individual and institutional investors have sought safer investments.<sup>3</sup> Even before the downturn, the speed at which a trade was executed offered a very clear competitive advantage to traders. The desire for advantage drove the industry toward automated trading — open source or not — which accelerated, given the travails of the market this fall. But bank trading arms are now looking for better performance and lower risk and support costs, especially now that the legions of IT resources that supported proprietary trading systems have shrunk. Given the newfound attractiveness of open or standards-based solutions among the formerly closed in-house development environments of trading core processes, expect more interest in solutions that stress lots of flexibility, even in terms of hosted or SaaS deployment options.

## Memento

Memento ([www.mementosecurity.com](http://www.mementosecurity.com)) targets the needs of banks and credits unions dealing with enterprise fraud perpetrated by a wide range of professional fraudsters and bank insiders. Focused exclusively on the banking industry, the company offers its enterprise fraud management solution as a managed service. That means that banks and credit unions don't have to hire more security staff in a recession and can instead tap the expertise of Memento's security teams that deal daily with fraud incidents. Memento addresses deposit and card account fraud, insider issues, and emerging fraud, and helps institutions deal with regulatory mandates such as Red Flag and Reg E.<sup>4</sup>

The company's fraud, analytics, and data specialists use a variety of techniques for fraud detection including pattern matching, chain-of-event analysis, behavioral profiling, and peer group matching. What distinguishes Memento's software — Memento Security — is its enterprise data management approach, which indexes all manner of structured and unstructured data and mines it using a search engine approach, rather than relying on the more common data warehousing approach for fraud identification. Memento Security's case management application also offers dashboards designed to report fraud detection and prevention efforts, based on the information and presentation characteristics of different roles within the bank or credit union.

- **Why it's important.** Fraud is a big problem that banks would rather not talk about.<sup>5</sup> But before the collapse of the financial services market, many banks considered fraud one of the costs of doing business. Now, with banks paying careful attention to expenses and clutching their capital, fraud has become a more material cost that can be better controlled. But the skills for identifying fraud are very different from the already hard-to-come by security expertise that is challenging banks, meaning that fraud identification tools that optimize the productivity of resources are essential in this environment.<sup>6</sup> Solutions like Memento's managed enterprise fraud management service means that the solution can be rolled out quickly, often delivering same-quarter results, and helping banks manage this very real and growing cost.

### Reflexis Systems

This year, Reflexis ([www.reflexisinc.com](http://www.reflexisinc.com)) tapped into its expertise in retail execution management solutions for big-box retailers like Kohl's, Sears, and Home Depot and rolled out its Banking Action Manager solution. Banking Action Manager helps retail bank and brokerage branch, territory, and corporate managers accomplish a variety of business objectives, including regulatory compliance, staff training and development, and branch sales objectives. Instead of a barrage of emails that challenge managers to figure out urgency and priority, Banking Action Manager provides different roles within the bank with a role-based dashboard listing all the to-dos. Meanwhile, a bank's corporate and territory management get an array of metrics and key performance indicators (KPIs) that help them quickly determine when a marketing campaign, compliance training, or even branch performance is headed off course. When a key metric falls out of predefined tolerance levels, the system can automatically assign corrective action by role, based on best practices embedded in the system. Even better, it can be delivered to a mobile device. Reflexis' Banking Action Manager is available in an enterprise licensed version (on-premise) and through SaaS.

- **Why it's important.** A lot of bank customers have no problem with researching bank services online, but when it comes to handing over the cash, they want to see the whites of someone's eyes. Building trust and deeper engagement with customers is what will attract deposits and keep banks reliant on their branches. But according to an October 2007 Federal Reserve study, though the number of branches is growing, average staff per branch is declining.<sup>7</sup> The branch staffing challenges will only get worse as economic factors drive banks to reduce staff. Branch

and territory managers need tools that reflect the way they work that help them and their banks succeed by ensuring that they're focused on efficiently executing on the right initiatives at the right time for the business.

## TouchCommerce

TouchCommerce ([www.touchcommerce.com](http://www.touchcommerce.com)) has built an online customer support solution for banks by parlaying the company's expertise in interactive chat solutions for retail customer acquisition, cross-, and upsell. Depending on the bank's preferences, TouchCommerce agents or the bank's agents can open a chat window during a customer's online session, either at the visitor's request or proactively, if the technology senses a valuable visitor is "stuck." The company, formerly called inQ, recently rolled out a more tightly integrated solution set: InTouch Sales, InTouch Care, and InTouch Marketing. Touch Commerce deploys its InTouch solutions through a SaaS model, meaning rapid time-to-results. To demonstrate its commitment to working shoulder to shoulder with its banking clients, TouchCommerce works on a "pay for performance" basis, meaning that bank clients get charged only for sales made, rather than a classic subscription model.

- **Why it's important.** The No. 1 banking inquiry that Forrester fielded in the first half of the year was about customer engagement. As banks seek to bolster their financial position, they're chasing customers and their deposits. While many customers will continue to get most of their financial advice face-to-face in the branch, the Gen Y and Millennial segments will demand that that same advice get delivered to them immediately online.<sup>8</sup> In addition, the regular online banking customers can use the service to find out more about new offerings or get simple transaction questions answered, all of which go to creating stickier customer relationships. TouchCommerce's InTouch strategy strengthens the bank's engagement with customers, delivering results often in the same quarter with very low risk, thanks to both the SaaS model and the fact that banks only pay for the sales that TouchCommerce makes.

## RECOMMENDATIONS

### THRIVE BY RECOGNIZING WHEN TECHNOLOGY ADDRESSES INDUSTRY MARKET CHANGES

The companies noted in this report underscore fundamental changes in the role that technology will play in the broad banking industry in the coming years. To stay on top of banking industry market trends, Forrester recommends that tech vendors looking to enter or expand in the banking market should:

- **Pitch solutions that will drive banking innovations.** In this market, banks are looking to provide new services or financial strategies that can help them attract and build tighter bonds with their customers. The economy is also driving banks to demand that technology gets delivered in ways that the banking industry might not have considered when they

were flush with cash. At the same time, consumers are demanding more from their banks in terms of financial advice and services. Offer SaaS options when it comes to delivery, and align messages around the key business driver — reducing time-to-revenue. Along with interactive chat and electronic signatures, Web 2.0 technologies are helping banks become more meaningful to their customers, with PNC's Virtual Wallet being an excellent role model.

- **Watch for regulatory changes that will test bankers.** It seems like not a day passes when there isn't some new call for more regulatory oversight of banks and money managers, and in this market, banks are unlikely to get headcount to help with compliance. Technology solutions like Reflexis' Banking Action Manager help compliance officers and auditors become more productive with a means to measure and verify compliance. For consultants looking to replace lost revenue, create advisory offerings to help bank risk and compliance officers deal with anticipated regulation.
- **Take a job focus.** Helping people get their daily job done is important for bankers, too, and Forrester has seen a lot more technology vendors offering role-based dashboards to their banking customers. Show bankers how they can do their jobs better by integrating business processes and technology in new ways, using different channels. Deliver business performance intelligence with job- or role-focused dashboards that allow job holders to get the information they need to be successful in their roles in the way they want it presented.
- **Keep a wary eye turned to the competitive landscape.** Light bulbs are clearly going off in the heads of more technology marketers, looking either to preserve their banking market share or upset some slower-moving incumbent. Legacy banking technology vendors will be dealing with new, lower-cost competitors that can effectively and rapidly meet the business needs of the banking marketplace. That means that tech vendors need to think about their own innovations, examining their own structures and how well and how quickly they can adapt to the rapidly changing needs of the banking industry.

## ENDNOTES

- <sup>1</sup> The increase in the overall mortgage loan delinquency rate was driven by increases in the number of loans 90 or more days past due, primarily in California and Florida. In addition, the number of foreclosure starts is being artificially lowered by foreclosure moratoriums instituted by Fannie Mae and Freddie Mac as well as treatment of past-due loans during the workout process. Source: <http://www.mortgagebankers.org/NewsandMedia/PressCenter/66626.htm>
- <sup>2</sup> Vendor Web sites top the list when it comes to the resources that banking and insurance technology shoppers use when researching technology. See the October 28, 2008, "[How Banks And Insurers Shop For Technology](#)" report.
- <sup>3</sup> Given the meltdown of the financial services industry in October 2008, it's no surprise that the month saw a dramatic increase in consolidated trade volume. Source: <http://www.nyse.com/attachment/HistoricalVolume.xls>

- <sup>4</sup> Reg E limits consumer liability in cases of unauthorized or fraudulent electronic activity, provided the consumer notifies the financial institution within certain deadlines. Source: [http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=635f26c4af3e2fe4327fd25ef4cb5638&tpl=/ecfrbrowse/Title12/12cfr205\\_main\\_02.tpl](http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=635f26c4af3e2fe4327fd25ef4cb5638&tpl=/ecfrbrowse/Title12/12cfr205_main_02.tpl)
- <sup>5</sup> Credit unions, on the other hand, are a little more forthcoming. The National Credit Union Administration pushes out fraud alerts for consumers and credit unions. It goes one step further by publishing prohibition orders, identifying individuals barred from participating in the affairs of any federally insured financial institution. Source: [http://www.ncua.gov/news/press\\_releases/2008/MR08-0917a.htm](http://www.ncua.gov/news/press_releases/2008/MR08-0917a.htm)
- <sup>6</sup> The financial services industry is under intense pressure to get and keep customers, even while security budgets, especially in banking, are under equally intense pressure. Banks will turn to security technology vendors with value propositions that focus on bridging the people gap. See the December 8, 2008, "[Financial Services Security Has A People Problem](#)" report.
- <sup>7</sup> An October 2007 report by the Federal Reserve Board observed that while the number of branch banks are increasing, the staff per branch is declining. Source: [www.federalreserve.gov/pubs/feds/2008/200802/200802pap.pdf](http://www.federalreserve.gov/pubs/feds/2008/200802/200802pap.pdf)
- <sup>8</sup> Gen Y is a unique breed. Firms can't interact with these young consumers in the same way they do with older consumers. That's why Forrester identified immediacy as a key design approach for reaching Gen Y online. See the November 13, 2008, "[Engage Gen Y Online With Immediacy](#)" report.