

Get to know the Banking industry



Statement of Use

This booklet gives you an overview of the banking industry’s current issues and challenges. By understanding these issues and challenges, you will be able to address their needs in a more productive way and pinpoint ways to solve problems and seize valuable opportunities.

Add this background information to your own personal knowledge of ways Xerox can help businesses do great work. By leveraging a comprehensive product line, advanced workflow solutions and worldwide support, you’ll discover a competitive edge in the banking industry.



Table of Contents

Banking industry overview2

Banking trends and priorities2

Finding more information5



Banking Industry Overview

While the banking industry engages in a full range of financial services, its mainstay business is engaged in providing deposit accounts (checking and savings) and issuing loans. The bulk of most banks' profits come from the difference in margin of the interest paid to depositors and CD investors and the interest charged to borrowers. Even so, a growing portion of profits is coming from fees charged for services such as transactions, mortgages and business advisory. In addition, many banking companies now own insurance and investment companies that generate additional revenue and earnings.

Banking covers a number of subsets: commercial, savings, merchant, retail, mortgage and investment banking. Within the retail segment, you'll find banks, thrift and savings institutions, as well as credit unions.

Banking Trends and Priorities

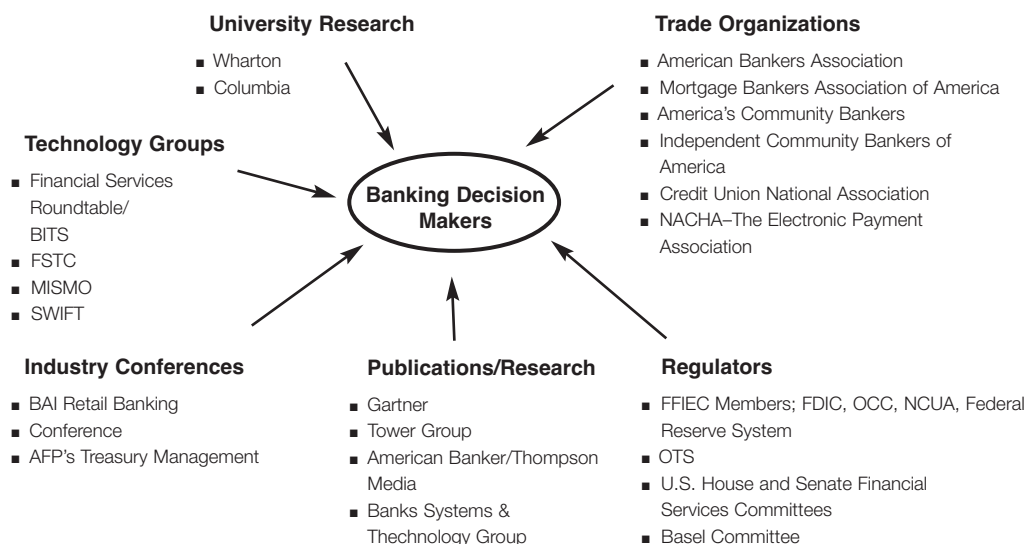
Mergers and Acquisitions

Mergers and Acquisitions are creating fewer larger global institutions, which as a result of their size enjoy certain economies of scale that increase their competitiveness and effectively provide barriers to entry to other, smaller institutions. The number of commercial banks in the U.S. has shrunk from 14,628 in 1975 to 7,864 in 2003.

NOTE: A bank typically loses between 15 and 20 percent of its customers after going through a conversion process. However, Pacific NorthWest Bank lost no customers following a merger because it customized the 120,000 conversion booklets sent to each customer, reducing it from a long generic document to a short specific document.

Key Influencer Map

The diagram below paints a picture of all the institutions and groups—trade associations, research consultants, technology groups and regulators—that influence decision makers in the Banking Industry. (Gartner 2004)



Source: Gartner Dataquest (January 2004)

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Customer Loyalty

Banks realize customers feel they have lost the personal attention they once had with their local banks, largely as a result of the ever-intensifying merger and acquisition activity among banks. Typically a bank loses between 15 and 20 percent of its customers after going through a conversion process.

XEROX OPPORTUNITIES:

- *To leverage the marketing potential of every customer “touch,” data-driven messaging on statements and other customer documents can deliver timely, relevant messaging and offers.*
- *Ever-smaller market segments (geographic, demographic, relationship-level, etc.) point to shorter print runs and variable color opportunities—both ideal for iGen3.*
- *Pressure to reduce inventory and warehousing costs suggests increasing demand for print on demand solutions.*
- *Expansion of branch networks increases the need for regional and even branch-specific versions of printed materials.*

Single Client View

Most medium-to-large banks have already spent huge sums of money to gather and analyze customer data, yet they haven't always been able to capitalize on this investment in ways that improve customer experience and retention. For example, most banks have found that achieving SCV (single client view), partly for the purpose of improving response to customer inquiries, remains an elusive goal.

The American Bankers Association's Retail Delivery Conference in early 2005 emphasized how front-and-center this topic is today. ABA's magazine reported that nearly every discussion of technology at the conference centered on enhancing customer experience.

XEROX OPPORTUNITIES:

- *Instant document access is becoming essential for effective customer service. Imaging, document management and retrieval solutions should play a significant role in this area. More specifically, when it comes to achieving SCV, document analysis and reengineering, along with dynamic data-driven document production with automated PDF generation, is likely to become increasingly crucial.*

Reaching affluent customers

Larger banks are beefing up their wealth management services while some of the midsized and smaller banks are teaming up with wealth management firms to attract affluent customers.

Estimates vary, but reports indicate the top 20 percent of bank customers deliver as much as 100 percent of the profits (some of the other 80 percent actually lose money). Hence the scramble to attract and retain wealthy customers.

XEROX OPPORTUNITIES:

- *One-to-one marketing communications couldn't be more important here. Banks will employ ever greater segmentation in their marketing efforts, requiring smaller print runs and more versions of each marketing piece. This should favor the use of Xerox iGen3 Digital Production Press as well as our Xerox DocuColor family of products.*

- *Affluent customers expect personalized service, making Xerox customizable printing capabilities a perfect fit. Everything from annual portfolio reviews to pitch books for ancillary services such as trust and estate planning can be custom printed with the use of Xerox technologies.*

Reducing costs/Improving ROI

All financial institutions are driving cost out of their business by reducing head count, eliminating loss-making divisions or products, merging with other institutions to gain economies of scale, and reducing the number of suppliers they deal with to reduce overhead and leverage their buying power.

XEROX OPPORTUNITIES:

- *As banks look for ways to free up staff resources for more customer contact, Xerox automation technologies such as FreeFlow optimize and simplify digital printing workflows with increasingly more effective software tools and applications. Specifically, the new Output Manager can reduce the number of employees needed to manage multiple print devices and produce customer documents.*
- *Impact the bottom line. With a personalized communications workflow, banks can target customers and offers, track responses, refine marketing programs, and get increasingly higher response rates—driving down the cost per response and increasing the return on marketing investment significantly.*

Impact the Bottom Line

Sample Mail Program	Cost Per Mailer	Response Rate	Number of Responses	Cost Per Response	Total Cost
200,000 Personalized	1.10	10%	20,000	11.00	\$220,000
2,000,000 Non-Personalized	.25	1%	20,000	25.00	\$500,000

Specialization and outsourcing

Banks are feeling pressure to prioritize their lines of business and marketing channels. In other words, they realize they can no longer be everything to everybody.

In addition, non-bank entities are aggressively entering the banking space. Credit unions, insurance companies and online financial service providers are pushing traditional banks to become more innovative in terms of service delivery and communications.

Three trends can be expected: (1) banks will try to maintain profit margins in some segments by improving the effectiveness and reducing the cost of communications; (2) banks will outsource some operations, such as cash management and lockboxes, to more efficient providers; and (3) banks will continue to outsource key areas of business/operations to transaction process service providers.

XEROX OPPORTUNITIES:

- *To help banks maintain profit margins, Xerox technologies improve communication effectiveness, especially as segments become smaller and more numerous.*
- *As transaction processing/clearing providers gain traction, they will be looking for greater flexibility in printing to handle multiple brands. Transaction clearing companies will also need to demonstrate high efficiency of small print runs to pull business from internal banking operations.*

- *Recent SAS 70 accreditation via PricewaterhouseCoopers gives Xerox Global Services a credibility advantage in terms of data integrity, confidentiality, security and backup.*

Opportunities with key BPO players

- **Credit Card Statement Printing:**
Two key players in this space are First Data Resources (FDR) and Total Systems Services (TSYS). Together these two transaction-processing service providers own most of the market for credit card statement printing.
- **Compliance Document Printing:**
Harland Financial Solutions and Banker Systems, Inc., print most of the compliance documentation for the banking industry and provide banks with a guarantee that their compliance documentation will be current.
- **Lending and Servicing:**
Fiserv Inc., Metavante and Fidelity Information Services provide business process outsourcing as well as lending and servicing systems to many large banking institutions.

Meeting Check 21 regulations

Check 21 deadlines are pushing banks to become “image exchange ready.” Yet many banks are facing difficulties getting up to speed. Check 21 calls for banks to move checks as images and be able to convert them back into legal paper substitutes when needed.

The purpose of this new regulation

is to eliminate the need to physically transport the original checks, thus speeding up the clearing process and saving the banking industry billions of dollars. However, Check 21 is not expected to eliminate the use of physical checks, as nearly two-thirds of consumer bills are still paid with checks.

More banks are adopting MICR-encoded printing, requiring more sophisticated printing equipment.

XEROX OPPORTUNITIES:

- *Xerox clearly has an opportunity to gain a large share of the Image Replacement Document (IRD) market created by Check 21.*
- *Xerox should also find opportunities in the production of bank statements that include check images on the back sides.*
- *Xerox offers multiple MICR printing options, including new high-speed continuous-feed printers.*
- *In more general terms, Xerox can take a leadership role in helping to define the new workflows resulting from Check 21.*

Meeting Sarbanes-Oxley regulations

Documentation of just about every facet of a bank's business, as well as their client's businesses, is now more crucial than ever.

C-level and board members are concerned about liabilities if the proper workflow and documentation are not in place.

XEROX OPPORTUNITIES:

- *C-level members of banks and their clients can take comfort in Xerox practices, as they are audited and documented per SAS 70.*
- *Chief Compliance Officers (CCOs) are now more influential than ever in the purchase of document management systems. They are looking for reliability as well as flexibility—two hallmarks of Xerox printer products, software and consulting solutions.*
- *Highly automated and data-secure Xerox FreeFlow solutions add further confidence as they face demanding requirements of Sarbanes-Oxley regulations.*

Basel II Capital Accord

This new international accord requires banks to meet a unified standard of capital requirements in addition to controlling risk throughout the firm's organization.

Small and mid-sized banks will find it more difficult to comply, as they generally do not have thorough and timely reporting systems in place.

XEROX OPPORTUNITIES:

- *Basel II, like Sarbanes-Oxley, simply increases the need for greater documentation of the bank's business. Document workflow will take on new emphasis throughout the banking industry. Xerox has many tools and tactics to help large and small banks comply. Xerox's worldwide footprint should give it an edge, as banks become more concerned about standardization with foreign affiliates and branches.*

FACTA (Fair and Accurate Credit Transactions Act, or Fact Act)

A great deal of confusion surrounds the interpretation of the Fair and Accurate Credit Transactions Act. But one thing is for sure: provisions call for more intense management of documents and additional reporting systems.

XEROX OPPORTUNITIES:

- *Xerox is in a unique position with its FreeFlow solutions to help banks move in the direction of greater document control. The wide-ranging capabilities, due in part to Xerox's partners, give banks more flexibility to adjust their systems to FACTA's evolving requirements.*
- *Xerox's document management leadership should find favor among those who are unsure about how to respond to FACTA.*

Finding more information

Publications

- ABA Banking Journal and ABA Banking Journal Online
- Banking Strategies
- US Banker

Associations

- American Banking Association
- Mortgage Bankers Association of America
- America's Community Bankers
- Independent Community Bankers of America
- Credit Union National Association
- NACHA—The Electronic Payment Association