Easing the way

By ANNA BURGESS YANG

The best technology is the kind that supports both the customer *and* the community bank. We look at some key industry challenges and where tech could potentially ease pain points. Importantly, we encourage banks to ask one essential post-implementation question:

IS THIS TECHNOLOGY GETTING THE JOB DONE?

Sometimes, technology bursts onto the scene with a bang—looking at you, generative AI—and sometimes a technology solution quietly solves one piece of a larger banking puzzle. Whatever the case, at a minimum, the technology should make humans' jobs easier.

Take loan underwriting, for example. With so many moving parts, it can be hard for community banks and their customers to manage. Banks can certainly look at end-to-end solutions that take a loan from application through closing. Alternatively, they can look at products that solve one problem and integrate well with other products that the bank uses successfully. Technology can make implementation easier, help banks see ROI faster and pave the way for solving other related challenges.

When assessing new technology, community banks should be asking themselves: What are our biggest bottlenecks? What requires the most human

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interaction but is often tedious or repetitive work? What is frustrating for our customers?

Identifying the pain points and finding the right technology to solve them is half the battle—but once implemented, technology can free up bankers' time or improve the customer experience (or, ideally, both).

There's no shortage of technology products on the market, but we've narrowed in on a few that solve specific challenges for community banks and their customers.

WORKFLOW AUTOMATION FOR A BETTER LENDING PROCESS

Lending continues to be a complex process, inundated by data collection and, in many cases, paper documentation. With each piece of information that needs to be collected and reviewed manually, a little time is lost and the customer experience dwindles.

"Innovative banks are not just focusing on automating back-office tasks like approval workflows and financial analysis; they're also prioritizing technology that enhances the experience for their most profitable customers—the ones who keep the lights on," says Colin Savells, SVP of revenue at Teslar Software, a lending process automation software provider. "Tools such as customer portals, which streamline document submission and provide real-time updates on loan progress, offer a user-friendly experience."

Bank of Idaho in Idaho Falls, Idaho, implemented Teslar four years ago to improve workflow automation. Since then, the $1.3 billion-asset community bank has been able to eliminate two scanning roles in the loan operations process because it no longer needed to scan documents to the system of record. As the bank has grown and implemented more technology, those kinds of roles are reassigned to other, more high-value work within the bank.

Since 2018, Bank of Idaho has grown from $334 million to its current asset size, experiencing 20% to 30% growth per year. Devan Wright, VP deputy chief credit officer, says the bank's loan support staff has maintained roughly the same head count during that time. "A big part of our growth—and the only way we've been able to scale and keep our efficiency ratios intact—has been through technology," he says.

Along with workflow automation, when

Are we in an AI bubble?

In June, Goldman Sachs reported that tech companies are expected to spend more than $1 trillion in capital expenditures related to AI, including infrastructure investments such as data centers and chips. Yet, in August, the stock market took a tumble as some of the largest tech companies lost $800 billion in value.

According to Reuters, Wall Street is worried that AI investments have been "more costly than expected, and that the payoff from that spending could take longer to be realized."

Is this reminiscent of the dot-com bubble or merely part of the growing pains when an emerging technology hits the market? While some AI vendors may struggle to find footing for their real-world applications, Charles Potts, EVP and chief innovation officer for ICBA, says AI has "great promise" for community banks and the customers they serve.

"[At ICBA,] we've done a really good job of helping educate our bankers on what AI is, how to think about it and how to properly take these capabilities and tools and deploy them in the right way," he says. He sees the most potential in automation, workflow improvement and creating efficiencies wherever machine learning and AI can replace manual labor.

For banks that may be concerned that the AI bubble will burst or that potential vendors may go out of business, due diligence and proven use cases should continue to be the driving forces. Potts has seen this among community bankers. "[They're] doing a good job of getting beyond the hype cycle and appropriately applying technology that can solve problems."

“Machine learning models can analyze check characteristics and detect abnormalities that might signal fraudulent activity.”

—Ravi Sandepudi, Effectiv

customers submit documents through a portal, banks can use technology such as robotic process automation (RPA), which is capable of more complex automations involving AI. RPA can extract data from submitted documents, like bank statements, pay stubs or loan applications, and send that data into the bank’s underwriting application or loan origination system.

CONSUMER-PERMISSIONED DATA FOR A MORE COMPLETE FINANCIAL PICTURE

An alternative to having customers submit documentation is to use consumer-permissioned data. Customers use account aggregation to grant their lender secure access to data at another institution, such as another bank. Rather than relying on paper bank statements, lenders can get a more complete financial picture. Consumer-permissioned data can also be used to grant lenders access to payroll data for verifications of employment and income.

“Financial providers can’t deliver the best experiences for customers with only a fraction of the picture,” says Wes Hummel, chief product and technology officer at MX Technologies, Inc., a product that connects financial accounts. “By enabling consumers to easily connect accounts and share their financial data, both financial providers and consumers can better understand and do more with financial data.”

No matter how a bank opts to collect data—whether it’s through an online portal, RPA, consumer-permissioned data or a combination—each offers a way to make the lending process more streamlined for both the bank and the customer.

MACHINE LEARNING THAT FIGHTS CHECK FRAUD

Year in and year out, banks are forced to spend money to keep fraudsters at bay, whether it’s payment fraud, cybercrime or identity theft. Since the pandemic, check fraud has been on the rise, with fraudsters becoming very organized and even breaking into post offices to steal checks.

In 2023, the Financial Crimes Enforcement Network issued an alert about a surge in check fraud, particularly mail-related check fraud. Suspicious activity reports filed related to check fraud jumped from 350,000 in 2021 to more than 680,000 in 2022—a trend that is expected to continue.

“Check fraud, though it may seem outdated, remains a significant threat due to the high value of transactions associated with checks,” says Ravi Sandepudi, cofounder and CEO of Effectiv, a risk management platform. “Machine learning models can analyze check characteristics and detect abnormalities that might signal fraudulent activity.”

Because of the speed and volume at which fraudsters operate, community banks should prioritize real-time detection and a solution that can do two things, he says. One, it should integrate with the bank’s existing systems, and two, the technology should be able to adapt to new threats as they emerge. Overall, check fraud technology reduces the risks that come with manual intervention or human error.

“If banks don’t invest in effective fraud-fighting solutions, they risk significant

78%

of the U.S. banking population prefers to do their banking on a mobile banking app

Source: Forbes

CFPB eyes 'doom loop' customer service

In August, the White House announced a new "Time Is Money" initiative to crack down on business practices that are "time-consuming or otherwise burdensome for consumers."

Specifically, the Consumer Financial Protection Bureau (CFPB) has been tasked with rulemaking for customer service "doom loops," such as phone menus and chatbots that make it hard for bank customers to talk to a real human.

While it will take some time for the CFPB to issue final rules on these issues, community banks should be on alert. Technology can often alleviate the burden of scaling operations, especially when banks receive a high volume of inquiries with limited staff. Automated phone menus and chatbots serve as frontline support that can provide immediate answers to routine questions.

But with the possibility of future rulemaking from the CFPB, community banks need to examine their current technology and any vendors they may be considering. Anything implemented should consider the customer's point of view: How easily can customers reach a human and bypass any automated or AI-powered assistance?

financial losses, regulatory penalties and reputational damage," says Sandepudi. While other parts of the world have moved away from checks in favor of digital payments, check fraud will continue to be an issue that banks must contend with as long as there's demand for paper payments.

MOBILE BANKING FEATURES THAT MEET DEMAND

According to Forbes, 78% of the U.S. banking population prefers to do their banking on a mobile banking app, so community banks must consider a mobile-first approach. That includes features like collecting documents or signatures within an app, making sure the app has accessibility features for customers

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with disabilities, and providing an easy way to communicate with bank staff.

BAC Community Bank in Stockton, Calif., implemented mobile chat, which the bank calls "Smart ALAC" (All Access Connection). While Smart ALAC is a chatbot, it connects customers with a real BAC employee as their personal banker.

"Customers go to our website, hit the chat button, and our little ALAC will ask them what they want to do and point them in the right direction," said Jackie Verkuyl, EVP/CAO of $800 million-asset BAC on episode 19 of the Independent Banker podcast (*icba.org/podcast*). "It gave us this opportunity to have better communication, a better tool and a better process for working with our existing customers, making it easier for them."

A mobile chat option puts the communication where bank customers are spending time anyway: on their mobile devices. "In-app mobile chat support offers bank customers the convenience of accessing support directly within their banking app, creating a seamless and efficient user experience," says Matt Phipps, chief marketing officer at Agent IQ, the company that powers Smart ALAC. "Customers resolve issues or get answers to questions in real time without needing to leave the app or call into a call center."

Of course, banks are also exploring AI-powered chat because it can reduce overall support volume by providing instant responses to common questions and easing the burden on call centers during peak times. "A blend of human expertise and AI efficiency allows banks to deliver consistent, high-quality service," says Phipps. He also notes that if customers can get all the answers they need—whether human or AI-powered—in their mobile banking app, it keeps them satisfied and connected.

STRATEGY DRIVES EVERYTHING

A community bank's ever-growing wish list of technology improvements is usually met with the realities of budget and resource constraints. Should a community bank pursue the low-hanging fruit of back-office improvements that have high ROI and are less invasive? Or should you pursue customer-facing technology to meet the demands of consumers who expect banking to be as easy as placing an order on a slick e-commerce platform?

Strategy should drive everything, according to Charles Potts, EVP and chief innovation officer for ICBA. "[The bank's] goals and objectives have to dictate the crawl, walk, run steps that a bank takes," he says. If it's a large initiative, he notes, that might mean starting in a small, piloted way to ensure the technology lives up to its promise.

With whatever strategy a bank pursues, the best technology should enable it to do more with less. That continues to be technology's best promise for community banks, allowing them to stretch their resources further while continuing to deliver value and a personal touch to their customers.

680K

The number of SARs related to check fraud filed in 2022, up from 350K in 2021

Source: FinCEN

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How to evaluate new technology

Devan Wright, VP deputy chief credit officer at Bank of Idaho, has no shortage of vendors trying to sell him the latest and greatest technology. The Idaho Falls, Idaho, community bank has implemented a lot of technology over the years, and Wright has learned how to assess and select a vendor efficiently.

He considers how many bank employees have to be involved to ensure the successful implementation of a technology. "If you partner with good technology vendors, [they] help with the succession from 'Here's the old way, here's the new way, and here's the roadmap on how we're going to get there,'" says Wright. "That's how we've had a lot of success."

Bank of Idaho recognizes that some technology has intangible value that's difficult to calculate. In other cases, implementing systems eliminates the need for certain roles and allows the bank to move the employees into different positions. "That's simple math, and those are usually slam dunks," says Wright.

The community bank also assesses its vendors annually to ensure the technology is still meeting bank needs and is profitable. During the assessment, the bank also looks at the vendor's financials to ensure continued viability.

Wright notes that working with a startup is a cheaper route, but you're "going to have to deal with the kinks." He also acknowledges that Bank of Idaho has occasionally implemented new technology that didn't end up making an impact or solving the problem it was expected to solve. "There's a lot of bait and switch that you've got to avoid," he says. "Technology can look really good, but the 'guts' behind it—that core functionality—has got to be there."