Trent's Comments

Managing Information Technology Costs: Contracts

I've been thinking a lot about costs lately. While your attention naturally turns to cost control in difficult economic times, a better approach is to build a culture of cost control that permeates your organization. In effect, it is a type of fiscal discipline. As you strive to elevate your entire staff's awareness of the importance of cost control, you will instill habits that extend to current and future business practices, for matters large and small. This time, I want to address a specific area, that can become a good example of how you want your staff to address costs across your bank.

 An area often overlooked by management, are contracts and relationships associated with Information Technology services. Especially for those of you who choose to outsource such processing, there are long term contracts that reflect significant costs to your bank. These costs include day to day costs, and extraordinary costs that might be associated with acquisitions, early terminations, or conversions to other systems.

Overall management of these contracts is an important subject, and I have written and spoken about it extensively. For our purposes, however, I want to focus purely on the ongoing cost elements of these contracts, as they are significant and persistent. Complex services, such as core account processing, involve complex pricing, and I often find errors in monthly billing associated with these contracts. Failure to correct an error the first time means it is likely to persist.

To ensure that your bills are accurate, evaluate them in light of the terms and conditions, and pricing schedules of the contract. It's important to look at these bills every period (whether monthly, annually, or otherwise) in a timely manner. Such familiarity will cause your staff to better understand what is "normal" and quickly identify errors. You'll also find that many such contracts preclude your recovering all of the over-billing or other errors, if you wait too long. One such contract I saw recently limited the vendor's liability to the last three months of overages, even though the problem might have gone on longer.

Steps taken now to institute a regimen of regular review of these contracts will pay big dividends in ensuring that you are paying only what you've agreed to, contractually.

Telephone Banking: The Forgotten Technology

By far one of the most popular customer facing technologies banks have introduced is Interactive Voice Response (IVR). Customers flocked to this technology, calling over and over to hear a balance or see if a payment has cleared, many calling multiple times per day even if account balances and other information was not in real-time. The advent of Internet Banking may have slowed the usage, but it did not go away. Convenience might be an issue: a customer checking an account balance may find the touch tone phone faster than logging into your web site. These systems are simple and easy to use.

Internet Banking is well into its second decade, however, and many of you are already investing in the next generation: Mobile Banking. The question is, what to do with our IVR systems? Especially if you are running IVR "in-house," it is likely that your system is aging, and support may be lacking. If you've priced a new system, you may be taken aback by the cost. If you can keep that old clunker running a bit longer, here's my step by step process for getting a handle on this technology before it causes you a real problem.

1) Do an operational and contractual assessment of your current system. Get the vendor involved (if they are still around) and make sure you have ready access, in the short term, to replacement parts and support in the event of a failure. Get your core vendor involved (if they are not the IVR vendor) and ask them to help you plot a backup strategy, if your IVR vendor is not around. Or call an expert *(that would be your humble author)* Your goal here is to put together a strategy to keep the technology working for another year or two, while you move these users to other solutions.

2) Take a hard look at the number of calls you are receiving, and who these folks are. Generally, you will find a significant group of "repeat offenders."   Hopefully, your system produces reports, but if not, go to the phone logs to see what you can learn.

3) If you have outsourced your IVR, think about aligning the efforts listed below with that contract's expiration date, so that you can retire the technology at that time. A benefit of outsourcing is that you are relieved from worry over the state of your system. A downside, however, are the costs associated with the technology and the calls.

4) Taking into account (based on available reporting) the frequency and type of activity you see, design an aggressive marketing campaign to move those folks to Internet Banking.

5) If you currently have mobile banking, even better. Promote that directly to your IVR users, with particular attention to the SMS "text" capability, as it offers the path of least resistance to their using the product.

My hope is that, over time, with some concentrated effort, you can eliminate your IVR system in favor of newer technology that offers customers even more functionality.

Upcoming Speaking Engagements

June 2012
- 7 : Massachusetts Bankers Association - *Retail Banking Conference*

- 8: New York Bankers Association - *Operations, Technology and Compliance Conference*

- 18: State Banking Associations Webinar *"Managing Your Core Vendor Relationships"*

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August 2012
- 8: Midwest Independent Bank *Operations Conference*

- 24: Florida Bankers Association *Annual Convention*

Another Option for Accessing My Expertise and Insights

As long time readers know, my intent is to keep this newsletter short, and simple. No pictures or banner ads, just an update on my projects and speaking, plus one or two short articles with information you can use. I'm beginning to move some newsletter information to my blog,

www.bankinginsights.blogspot.com

I will also commit to new articles once or twice a month, especially when hot topics come up. You can subscribe to the blog in order to receive updates, and I encourage you to do so. I've already put up a couple of interesting articles.

That's it for this issue - please call, email, tweet or FaceBook if I can help you with these or other matters.

Trent's Comments is published six times each year and provides insight into strategic topics facing financial institution executives. Please feel free to share this with your staff and colleagues. Should you not wish to receive this newsletter, simply send me an email and I will remove you from future mailings.

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