

Key Financial Industry Issues Impacting the Access and Security of Customer Data



The financial industry is facing technology challenges related to the access and security of customer data, fueled by key issues including regulatory compliance requirements, increased self-help and mobile banking by customers, and data security concerns.

Introduction/Overview

The number of banking and financial services customers is increasing faster than ever before. Regulatory and reporting requirements grow every year. The amount of data that the financial industry produces and uses is rising exponentially. It's a whole new world, and technology is both a solution and a challenge for the financial industry today.

The financial services sector is contending with the proliferation of self-directed services as well as a swell in compliance requirements. Transparency and real-time access to data are driving huge changes and new technology to improve customer engagement, data mining, operational efficiency and more accurate reporting.

The retail banking sector is experiencing massive change as well. The number of bricks-and-mortar branches is on the decline as online services expand, and credit unions and smaller banks are consolidating at a faster pace. Competition from neobanks (banks that exist only in digital format) is also posing a new challenge for bankers today.

This white paper will explore key issues and technology challenges currently impacting the financial industry, as well as trends pointing the way for even more change in the future. Special attention will be paid to trends affecting financial



planners, security exchanges, security traders, retail bankers and investment bankers.

Success today can be a matter of integrating the right technology in the right way. So this white paper will explore solutions to the challenges that banking and financial services firms are facing. You'll also discover how your technology partner can help equip your institution or organization with the resources to meet these challenges.



Challenges of Increased Regulatory Compliance Requirements

Regulatory requirements have grown markedly in recent years. They're a mounting challenge for the financial industry, and affect everything from data storage to security to transmission of data.

Almost 39 percent of financial advisors view regulatory overload as the biggest issue facing this industry. Over 60 percent plan to increase spending this year on technology to better face this challenge.¹

Between 2007 and the end of 2013, regulatory costs rose by 102 percent for the six largest U.S. banks, according to a 2014 study by Federal Financial Analytics.² That's a total of \$70.2 billion for those institutions alone. Increased regulatory compliance requirements and reporting are affecting smaller banks even more dramatically.

With the unprecedented regulatory challenges facing the financial industry, it's no wonder more institutions are seeking technology solutions to meet the challenges. But technology is just one of the things on the financial industry's collective mind right now. Other challenges include:

- Increased operational expenses
- Fines associated with non-compliance
- The cost of reallocating resources
- Increased regulatory scrutiny
- The issue of providing accurate reporting on risk exposure and capital management
- Standardizing and automating compliance processes

This is why it's even more imperative for institutions and individual service providers to partner with a technology provider that understands the unique state of the financial industry. A higher percentage of technology investments and labor resources are devoted to compliance than in years past — so align with the right

technology partner to make sure you're investing the right way.

While technology is just one of the issues this sector is dealing with, it's still mission critical. The right technology solutions will enable improvements in the following areas (and beyond):

- Measurement and analytics
- Compliance to regulations
- Operational efficiency
- Reporting accuracy and report delivery
- Risk transparency
- Monitoring
- Visibility into systems and processes
- Application integrity and security
- Information lifecycle management
- Internal controls

According to a Wolters Kluwer survey of nearly 400 banks and credit unions, four factors significantly affected the survey results: the number of new federal banking regulations, the increased dollar amount of regulatory fines, the amount of resources needed to dedicate to compliance and challenges facing institutions' senior leadership in managing risk.³ So if you and your organization are concerned about managing regulatory change, you're not alone. Many institutions are discovering that part of the solution lies in better technology to manage the data and cope with regulation and reporting.

¹<http://www.investmentnews.com/article/20150105/FREE/141229950>

²<http://www.bankingexchange.com/blogs-3/unconventional-wisdom/item/5764-can-compliance-burden-be-a-catalyst>

³<http://www.banktech.com/compliance/us-banks-increasingly-pressured-by-compliance-requirements/d/d-id/1296421>

More Choose Mobile Banking and Other Self-Help Services

Consumers are moving away from in-person visits with bankers and financial advisors, and moving toward mobile banking and self-directed service options. This digital banking trend is affecting both the banking industry and financial services.

Ovum expects mobile banking to rise by 7.5 percent, and online banking to rise by 7 percent in 2015.⁴ According to a study from Carlisle & Gallagher Consulting Group, 55 percent of Americans access their bank accounts through mobile banking options two to three times per week. This includes usage of laptops, tablets and smartphones. About 84 percent of consumers use personal computers for their banking activity, and 52 percent say they use mobile phones. Twenty-six percent said they bank using mobile devices four or more times a week.⁴

What does all this mean for the financial industry?

- Dramatic changes in how consumers bank and invest
- An increase in self-directed services
- A new lower-cost model emerging across the asset management spectrum
- An increase in passive products, such as ETFs (exchange-traded funds)
- A decrease in commissions based on management fees

Banking With Mobile Devices

Today people are increasingly using mobile devices for banking, budgeting, shopping and making payments. According to a 2014 report from the Federal Reserve, 87 percent of the U.S. adult population has a mobile phone, and 71 percent of those are smartphones. Around 39 percent of mobile-phone owners with a bank account used mobile banking in the year leading up to the survey—but that number rises to 52 percent with smartphone owners.⁵

Mobile users most often check account balances and recent transactions on their mobile banking apps. In a close tie for second place, mobile users also use those apps to transfer money between their own accounts and receive alerts from their bank (text messages, push notifications and emails).

The percentage of mobile users that reported having made a mobile payment in the year leading up to the survey came in at 22 percent in 2014, up from 17 percent in 2013 and 15 percent in 2012.⁶

All this mobile usage has changed the way customers interact with financial experts. It has enabled consumers to comparison shop on the fly, to change where they purchase products and services based on the information they find, to access reviews and testimonials from previous customers, and—most importantly—conduct much of their banking and financial activity themselves, without the help of a financial industry expert.

The impact is echoing out across the financial services and banking sectors. Experts in these industries no longer hold all the cards. Information is more accessible to consumers, and they're increasingly taking their finances into their own hands. Data security is also becoming more of a concern.

There is a mobile revolution happening with consumer financial habits around the globe, but especially here in the U.S. Getting the right technology in place now to handle the ongoing changes is a smart business move.



⁴<http://www.americanbanker.com/news/bank-technology/how-banks-are-allocating-their-tech-budgets-for-2015-1071546-1.html>

⁵<http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201503.pdf>

⁶<http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201503.pdf>

Bank Locations Decline as Customer Activity Shifts Elsewhere

Mobile banking has had another big impact on the financial industry—it's resulted in a decline in bricks-and-mortar bank locations. Customers handle more of their financial interactions online and via smartphones and tablets.

The number of U.S. bank branches in 2014 fell dramatically to 94,725, down 1,614 from a year earlier.⁷ Branch transaction volumes have declined more than 45 percent since 1992, according to a study by Financial Management Solutions, Inc.⁸ Average teller transactions are expected to decline from 5,600 in 2013 to 4,800 by 2016.⁹

Not only are digital transactions causing banks to shut down branches, they're causing a shift in the working hours of bank tellers as well. Customer traffic patterns have changed—they now expect information and services outside of traditional banking hours. The roles of traditional financial employees are also changing. There has been a shift away from having expertise and responsibility in a single area (such as teller, new-accounts taker or lender) to having a “universal banker” function which requires responsibility over multiple tasks.¹⁰

Modern customers expect to be able to access information and services anytime, from anywhere on any device. Financial institutions increasingly depend on reliable, fast and secure technology to keep up with this expectation. In fact, this technology has become a key factor in building and maintaining customer loyalty.



The piece of the puzzle that some financial institutions are missing, however, is the integration between online services and offline support. Today, a great customer experience requires seamless integration between online services and bricks-and-mortar branches and contact centers.

Just because customers are more digitally savvy doesn't mean they don't need assistance from actual human beings. The need for a personal relationship between financial institutions and customers is still incredibly important. Neobanks and robo-advisors will only take customers so far.

That said, financial industry personnel must change the way they interact with customers to continue to meet customer needs. Video conferencing and social media are two technologies that customers are coming to use in their everyday lives, and many financial institutions just haven't caught up yet.

Adding new technology is only one part of the solution, however. Financial institutions must also make sure their staff are trained and business operations support the new technology. Also, to avoid compliance issues, security problems and data integrity complications, institutions must ensure their technology products and services are delivered by a solution provider who understands the unique needs of the financial industry.

⁷<http://www.wsj.com/articles/bank-branches-in-u-s-decline-to-lowest-level-since-2005-1412026235>

⁸http://www.americanbanker.com/issues/178_99/branch-transaction-volumes-have-declined-45-percent-since-1992-study-1059324-1.html

⁹http://www.aba.com/products/bankmarketing/documents/feature_1_cov_nov_14.pdf

¹⁰http://www.aba.com/products/bankmarketing/documents/feature_1_cov_nov_14.pdf

Maintaining Customer Data Security Amidst Growing Threats

Every industry is facing increasing threats to data security today, but it can be argued that this is hitting the financial industry harder than most. The financial industry is expected to uphold higher standards to protect customer data because almost all the information generated or used by financial institutions is regulated, sensitive and/or private.



Protection of customer information is both a responsibility and an obligation of every financial institution. In fact, firms are required by SEC's Regulation S-P to have policies and procedures addressing the protection of customer information and records. This requirement includes protecting customer records and information against security threats or hazards, and against unauthorized access or use of that data.¹¹

Meeting regulatory requirements is not enough for customers, though. With almost daily news reports of data breaches and clever hackers making their way into large systems, consumers are on the lookout for reassurance. They want to know that their financial institutions are addressing these increasingly complex and evolving network security threats head-on. For the financial industry, this can be a tug-of-war between increased security measures and the increased customer demand for more convenient banking options.

Where There is Change, There is Also Opportunity

With account information, cardholder data and transaction records on file, maintaining data security is critical to customers and detrimental to institutions. But data security compliance continues to be a huge challenge for banking and financial services firms. New digital transaction solutions add new ways for hackers to gain access to sensitive data. Online communication options such as email, instant messengers and social media invite new forms of social engineering attacks that financial institutions must contend with. Even though they might not have any part in the interaction between a customer and a hacker, the financial institution still has a part in fixing the data breach.

One thing many institutions don't realize, however, is that there is actually a huge opportunity arising here. Establishing yourself as a leader in data security can have huge benefits. Banks and financial services firms both can strengthen and build their relationships with consumers by openly and aggressively addressing security concerns.

Cybersecurity is one of 2015's biggest risks to organizations, according to the World Economic Forum.¹² Public awareness of data breaches is on the rise with high-profile cybersecurity incidents frequently in the news. Consumers are concerned—and your reassurance can go far. Improving the security of consumers' personal information and offering better solutions for secure digital payments can be competitive advantages in today's market.

What does this mean at the ground level? It means improved cloud services, for one. Backup and restore solutions, secure hosted applications and infrastructure improvements enable financial institutions not just to compete, but to win the battle for customer loyalty.

¹¹<http://www.finra.org/industry/issues/customer-information-protection>

¹²<http://www.cnbc.com/id/102362835>

Communications Technology Considerations for Financial Institutions

An increase in demand for mobile, self-serve transactions, evolving regulatory compliance requirements and an ever-changing data security landscape are issues banks and financial services firms contend with on a daily basis.

That's why it's so critical that financial institutions partner with a technology company that understands their needs. From improved bandwidth to expanded communications options, Frontier knows and understands what will help financial institutions compete.

For Financial Services:

- Cloud services with robust backup/restore solutions
- Superior bandwidth improvement options
- Communications technology to improve digital wealth management offerings

For Banking:

- Cloud services with co-location (private cloud) options and secure file sharing
- Flexible networking for online banking and payment capabilities
- Technology such as video-based services that improve customer relationships

Frontier's Products and Services Include:

- **Frontier Data Networking Solutions**—Frontier's Ethernet Portfolio has been certified compliant to the highest industry-standards by the global standards organization, the Metro Ethernet Forum: Carrier Ethernet 2.0. Our Ethernet options include Ethernet Virtual Private Line (EVPL) and Ethernet Internet Access (EIA). These products

support IP VPN, SIP trunking, data backup & recovery, video conferencing and more.

- **Frontier Wi-Fi Solutions** – For facility-wide wireless data access, choose from options including fully managed turnkey solutions, unmanaged solutions, and cloud- and premise-based Wi-Fi networks. Frontier's Managed Wi-Fi solution can be designed to provide secure wireless connections to improve customer satisfaction for Internet connectivity and enhance employee productivity through mobile LAN access—all supported and monitored by our trained and experienced support teams 24X7X365.
- **Frontier Voice and Equipment Solutions** – Achieve lower costs and more flexibility with our hosted and on-site IP (VoIP) solutions. They include calling plans to fit your financial institution's needs, and business texting is also available for convenient customer communication.

Frontier Provides End-to-End Solutions for Financial Institutions

When it comes time to upgrade communication and networking systems to meet today's consumer needs, set up an appointment with one of our experts. We'll help you meet those challenges head-on while working within your budget constraints and providing you with a well-rounded solution that's perfect for your current requirements while allowing for future growth.

Frontier sales executives are experts in the technology solutions that financial institutions need to meet consumer demand and compete in today's market. Set up an appointment to discuss our growing portfolio of solutions for banking and financial services, and find out what Frontier can do for your organization today and tomorrow.

To find out what Frontier can do for your bank or financial services firm, please visit us at frontier.com/businessedge.

