

# CONNECTED



AN ELECTRONIC REPORT FROM THE CUNA TECHNOLOGY COUNCIL

## What Is BITS?

One eighth of a byte?  
Wrong.

BITS is the technology group for the Financial Services Roundtable. It was originally formed by CEOs of the largest bank-holding institutions in the United States as the strategic brain trust for the financial services industry in the e-commerce arena. Since its formation, BITS has evolved to a much broader group. The BITS mandate is to:

- Facilitate growth of electronic banking and financial services, an issue of vital importance to credit unions. Electronic services allow credit unions to leverage technology to “level” the playing field, so they can compete with bigger players.
- Facilitate development of superior, market-driven technologies to achieve greater efficiency.
- Maintain the industry’s role at the heart of the payments system as e-commerce evolves.
- Build consumer confidence by ensuring the safety, soundness, privacy and security of financial transactions. NCUA is already urging credit unions to manage their vendor relationships more effectively.
- Leverage resources and infrastructure across the industry.

CUNA and the CUNA Technology Council (CTC) are actively involved in a number of key initiatives to support credit union technology professionals in developing electronic services. As a growing part of the financial services industry, technology professionals are a key component of these initiatives.

Currently, BITS is pursuing a broad range of initiatives, including:

- Aggregation Services
- Authentication
- Business Method Patents
- Business-to-Business E-Commerce Framework
- Strategic Payments
- Electronic Signatures and Records Legislation

- Fraud Reduction Program
- Insurance in E-Commerce Risk Management
- IT Service Providers
- Privacy
- Security Related Initiatives
- Standards
- Strategic Use of Information
- Wireless Technologies

CUNA is a member of the Financial Services Roundtable, and the Technology Council has volunteered to be CUNA’s technical representative for BITS initiatives. We’re actively working with the following groups:

- IT Service Providers. CUNA and Technology Council members make sure that the credit union perspective is heard and understood. We’re adding copies of pertinent documents to the CTC Web site. The *BITS Framework for Managing Technology Risk for IT Service Provider Relationships* focuses on vendor management. In fact, with the recent NCUA letter, this document is a great source for tools and techniques for vendor management.
- Privacy is another area in which CTC will play an important role.
- Security-related initiatives.
- Standards. In this critical area, we need to build “best of breed” applications at an affordable interface cost. Standards like XML need to be incorporated into financial systems. CTC is working to accelerate the acceptance of standards across the industry.

BITS performs a critical role in the effective development of electronic financial services. Technology Council involvement in its various initiatives establishes credit unions as full partners in the financial services industry. If you’re interested in more information about BITS, check out the web site at [www.bitsinfo.org/index.html](http://www.bitsinfo.org/index.html). If you’d like to contribute to the initiatives detailed there, contact a member of the CTC executive committee. ♦

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## 2002 Summit: Get Caffeinated

“Technology is Brewing Up a New Future” is the theme for the Seventh Annual CUNA Technology Council Summit, to be held at the Westin Hotel in Seattle, Washington, August 7-10, 2002. Seattle in summer is a great destination. You’ll want to take this opportunity to network with peers and discuss some of today’s hottest technology topics. Conference sessions critical to professional development for technology professionals include:

- CRM, Business Strategy and Technical Implementation
- Guarding Your Networks
- Information Security Audits
- Strategic IT Decisions
- Measuring IT Success
- Trends in Server Based Computing
- XML
- IT Help Desk Strategies
- Speech Recognition
- Branch Retail Delivery
- CU Technology Best Practices

A keynote presentation by RealNetworks will examine the use of streaming technology in the financial services industry.

Full conference details will be available at [www.cunatechnologycouncil.org](http://www.cunatechnologycouncil.org) very soon. Early bird registration deadline is July 8. Join your friends and colleagues for education, networking, and fun at this year’s Summit! ♦



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## Smart Card Chip Prepares for Action

U.S. financial service institutions have anticipated the widespread use of smart cards for a decade. Experts say that smart cards will eventually emerge as the best solution for delivering flexible, mobile, and secure consumer financial services. But experts disagree on a precise timetable for the smart card revolution.

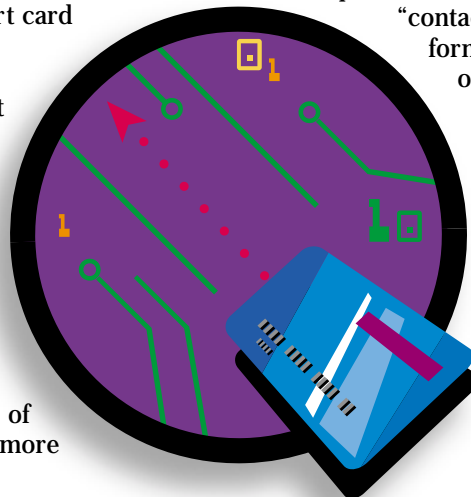
While the schedule may be uncertain, initiatives announced by leading organizations could soon put an end to the wait.

Organizations pursuing smart card pilots and projects represent credit unions, major credit card companies, government agencies, and retailers. Their efforts add weight to predictions that in the next three to five years, smart cards will have a measurable impact on the way consumers make financial transactions.

The term “smart card” is often used to describe a type of plastic card, but the focus is more

appropriately applied to the chip that delivers unique capabilities to smart cards. This chip allows the card to be used in many devices and applications. Chips and related costs continue to decrease while chip capabilities continue to grow, making it possible to develop new applications.

The smart card can take non-card forms because chip-based transactions can be completed in either a “contact” format or a “contactless” format. In a contact format, the information stored on the chip is read when the smart card is inserted into a reader. This reader accepts the chip in the plastic card format that consumers are accustomed to using. In a contactless format, the information is read through a wireless connection, typically when the device that contains the chip is passed before a



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reader. Often, smart cards combine contact and contactless formats.

Many smart devices are already being used, both as cards and in other formats. Some companies use smart cards to verify identity and provide secure access to sensitive facilities. Other smart devices are helping retailers: The Gap recently tested a smart tag containing a radio frequency chip that helps locate jeans based on size and style, producing a higher level of sales as store clerks track down jeans in the storeroom.

Privacy and security safeguards provided by chip-based services are expected to help drive adoption, along with chip card e-commerce applications. Several well-publicized projects are now taking advantage of the chip card's versatile capabilities. Proposals for a chip-based national identification (ID) card could also drive acceptance, although critics claim U.S. citizens are likely to reject any ID card plan.

Applications in the retail market emphasize chip cards' unique loyalty program advantages. These applications could help chip cards move beyond closed systems, such as university campuses, which have been the focus of most smart card projects in the U.S. Experts say that new pilot projects and studies are aimed at

finding the right combination of value and services to make it worthwhile to replace credit cards with chip-based services. These projects contribute to the rising use of smart cards in the U.S., with an increase of 37 percent recorded in 2000 by the Smart Card Alliance.

In an innovative approach, CUNA Network Services is working with SchlumbergerSema to offer the "e-gate" to credit union members. The "e-gate" overcomes some of the barriers facing smart cards by combining a chip-based design with a reader in a single device. The "e-gate" has immediate functionality because of its ability to store passwords and other identifying information used for sensitive functions, including online financial services. The credit union movement has also been involved in other attempts to test smart cards.

To stay abreast of smart card developments, experts suggest that credit unions continue to monitor credit card company programs, worldwide smart card use, and new pilot projects and devices introduced by retailers and computer manufacturers. ♦

*This article has been excerpted from Waiting for Smart Cards, by Darla Dernovsek, a CUNA Technology Council White Paper, 2002*

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## What Do Members Want— Face-to-Face or Direct?

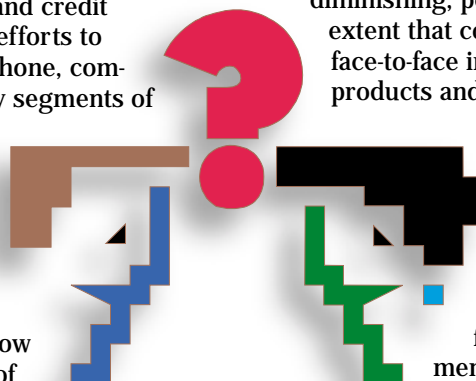
In a monograph sponsored by the Filene Research Institute, *The Human Touch in the Information Age: What Do Members Want?* Researcher Jinkook Lee argues that face-to-face communication remains very important to the majority of financial services consumers. Effective use of the human touch can be a distinguishing feature and a competitive advantage for credit unions.

However, change is afoot, and credit unions should make special efforts to use direct means—mail, telephone, computer and kiosk—to reach key segments of their markets. *The Human Touch* identifies the member characteristics that signal receptiveness to direct product delivery. It also shows which products are likely to be sold successfully through direct means, and how the personal characteristics of

buyers vary by product. The result is a roadmap of how to blend the human touch with direct marketing efforts.

Credit unions have held a traditional advantage in developing personal relationships with their members, and they excel in providing the human touch. With the recent proliferation of alternative, technology-based delivery channels, credit unions could find this advantage diminishing, perhaps rapidly, to the extent that consumers switch to non face-to-face interactions for financial products and services.

Direct means may offer greater convenience as well as lower cost than face-to-face interaction. Therefore, credit union CEO's are asking whether personal, face-to-face relationships with members will no longer be sig-



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nificant, as consumers move to technological interaction for financial products. Would such a development render credit unions largely indistinguishable from for-profit institutions?

Researchers analyzed MacroMonitor data provided by SRI Consulting, Inc. The data was based on a survey of a representative national sample of 3,780 households, of which 1,655 were credit union households. They investigated consumers' preferences toward face-to-face interaction versus direct means, and the extent to which these interactions vary depending on the demographics of the consumer. These preferences were examined across fifteen financial products and services.

Researchers found that face-to-face interaction remains very important to the majority of credit union members, and somewhat more important to members than to the population as a whole. They concluded that the human touch is far from dead as a competitive advantage and distinguishing feature of credit unions.

At the same time, a minority of members—but a significant minority—is open to non face-to-face means of obtaining financial services. An additional significant minority is uncertain and open to use direct means. Therefore, credit unions need to provide quality alternatives to face-to-face interaction, to serve their entire membership effectively.

The research identified four distinct types of consumers with regard to preferences for face-to-face versus direct means of obtaining financial services. *The Human Touch* identifies and characterizes these four consumer types, and suggests that preference for delivery channels varies enormously across the four types.

Furthermore, these consumer types do not fit into commonly held notions of which consumers prefer face-to-face interaction.

Credit unions can gain far greater efficiency and success in constructing and maintaining delivery channels, and in marketing products, if they focus on the interaction between the type of member and the product simultaneously. Research findings show that preferences for delivery channels vary greatly by consumer type, and each consumer type exhibits different preferences across products.

The willingness of many members to obtain financial products through non face-to-face channels is both an opportunity and a threat to credit unions. On the positive side, credit unions can now offer members a wider variety of financial products and services if they use direct marketing and delivery methods. Because members tend to trust their credit union, direct marketing efforts by credit unions and their business partners are likely to be more effective than marketing efforts by most competitors.

This study makes clear that credit unions need to provide financial products and services through different delivery channels to meet the disparate needs of member groups. The key is to deliver the right mix of financial products and services through the right channels to the right segments of members. The study provides information credit unions can use to enhance their ability to accomplish their marketing goals. ♦

*For more information on The Human Touch in the Information Age, call the Filene Research Institute at (608) 231-8550 or visit online at [www.filene.org](http://www.filene.org).*

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## In Search of a Better Call Center



New technology is being developed and applied to make call centers more productive, and allow call center representatives to answer questions quickly and accurately. This is in the wake of increasing consumer dissatisfaction

with telephone access to product and service providers, writes David L. Margulius in a *New York Times* technology report.

Over the last few years there has been an almost inverse relationship between investment in call center technology and customer satisfaction, says Michael Maoz, vice president and research director at Gartner Inc., a technology consulting firm. Satisfaction has dropped because companies have applied technology to handling calls more cost efficiently rather than to improving customer satisfaction, Maoz says. "They don't know where you are and why you're stuck. Less than five percent of companies today can provide an uninterrupted experience."

Part of the challenge is matching resources to the task. Many of the nation's 70,000 call centers handle not just calls but also inquiries relayed through e-mail and online chat, while trying to sell additional products and services as well. New technologies might improve the caller's experience, especially if the caller is one of the company's best customers.

"What sets leaders apart among companies that use these systems," Maoz says, is "processes designed from the customer's point of view." The first element in that design is Interactive Voice Response, which fields calls and hands them off to the next available agent. Many companies now use software to single out their best customers for a higher level of service and give priority to urgent inquiries. Less profitable customers may find themselves referred to self-service channels like the Internet or additional voice menus.

At the Pebble Beach Company, a resort operation in Pacific Grove, Calif., software tries to match callers with the right agents while minimizing waiting time. It also takes into account a caller's potential value to the company, giving inquires about golf and hotel reservations priority over golf-only requests. The system tries to predict how long someone's going to be on hold and refer the call to an agent with the skill to handle it. The average time on hold has dropped from 90 seconds to 30 seconds since the company switched to its new system last August.

Once a call is routed, the next challenge is summoning the caller's information to the agent's screen. Users have come to expect being asked to punch in an account number, only to be asked for it again seconds later by a human being. "You know it's coming; you cringe," says Matt Malden, a vice president at Siebel Systems, which designs e-business and call center software. The problem is often that the telephone voice system and the software used by customer service representatives were not designed to work together.

Helpful technology is arriving in the form of Internet-based software. Standard protocols make it easier for this software to integrate with both call-routing systems and the corporate databases in which customer information is stored. An agent may see not only the

caller's account number but also predictive information and a complete transaction history, including current orders. Many companies also supply their representatives with software that allows them to search for relevant troubleshooting information gleaned from across the organization.

At a call center for software maker Intuit, Support Engineer Marshall Prewitt says he noticed a big difference after new software was installed. Usually it took one or two minutes to gather customer information. "Now it's all right there," Prewitt says. Because the software was integrated with a warehouse database, representatives can instantly update the customer on the status of a back order. "Before, we had to transfer them to another department," he says. "That didn't make for a good customer experience."

Technology also holds hope for callers who have no option but to use an automated system. Because labor accounts for more than half the typical call center's costs, companies are investing heavily in better self-service technologies, including both web- and phone-based systems. Voice recognition is among the more promising approaches because it can handle inquiries too long or complex for touch-tone systems.

Discount broker Charles Schwab used voice recognition to handle 20 million calls last year and has recently begun testing a new voice identification system. Cecily Baptiste, the company's vice president for voice technology solutions, says the system is capable of recognizing individual user voices with 99.9 percent reliability, even when they call from mobile phones. The system, which she says may be in use within a year, can prevent callers from having to recall a personal identification number, although Schwab would still require them to enter an account number.

The highest priority, Baptiste says, is designing systems that know when to rescue a customer from voice menus and get them to a live operator, an intervention known as fail-and-bail. "We're not going to leave them stuck in the loop," she says. ♦

*The New York Times, March 14, 2002*



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## Designing the Fabric of Your CRM

Creating an effective structure for implementing customer relationship management (CRM) can be compared to sewing together a handmade quilt. Even credit unions starting with the same pieces—the same systems and software—will find that the fabric of their membership can shape specific features and functions into a highly individual design. Careful stitching is required to connect the goals of the organization, the quirks of the membership, and systems and software.

The finished product will be judged by how well it covers the credit union's specific needs. If it works, it will be a technological achievement of both beauty and utility. If it fails, it will be tossed aside by restless employees who find it either leaves them cold or smothers their desire to meet members' needs.

Credit unions that have tackled CRM projects say it's essential to regard CRM as a strategy, rather than a single suite of applications. While CRM solutions rely on technology, credit unions that have successfully implemented CRM

typically rely on a diverse team to direct their efforts. A May 2001 survey by CRM provider Harte-Hanks, Inc., of San Antonio, Texas, showed that 59 percent of respondents used cross-functional teams to develop their CRM strategy. The same survey also found that information technology (IT) departments were most likely to be the primary sponsor of CRM solutions, with primary CRM responsibilities allocated to IT at 42 percent of companies. Roughly 10 percent of the 300 companies responding to the survey were financial institutions.

Although CRM plans vary as much as CRM solutions, most plans review current practices to highlight weaknesses and opportunities in sales, referrals, contact management, customer service, and marketing. Efforts to manage communications with members using electron-

ic channels often get special attention. Credit unions appear to strive for a CRM solution that will allow the member relationship to be analyzed and then managed to increase services penetration, profitability, and retention.

Credit unions are now using three types of tools to implement CRM, at costs that vary as widely as the CRM solutions. Operational CRM tools are used to retrieve, store and manage data. Analytical CRM tools help the credit union staff interpret and apply data, such as determining which members will receive a particular marketing message. E-CRM extends CRM tools and tactics to electronic channels, particularly the Internet.

Integration between these CRM tools and the credit union's existing systems and software is a vital issue. A March 2001 study sponsored by Sedona Corp., King of Prussia, Pennsylvania, found that 76 percent of credit unions and other community financial institutions underutilize their CRM and marketing customer information file (MCIF) systems. The same study found

that 62 percent of respondents did not network CRM or MCIF systems within the organization, which limited the number of users and decreased integration across departments. Lack of training was also found to be a barrier.

When credit unions create a strategy that overcomes these barriers to effectively quilt together an effective CRM solution, the returns can be impressive. Credit unions report results that include significant increases in member satisfaction, service penetration among profitable membership segments, and return on investment throughout the organization. ♦

*This article has been excerpted from Customer Relationship Management, by Darla Dernovsek, an upcoming CUNA Technology Council White Paper, 2002*



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## WELCOME NEW MEMBERS

**William Arnold**

Purdue EFCU  
West Lafayette, IN

**Mary Bain**

Catholic FCU  
Saginaw, MI

**Craig Bowles**

Electro Savings CU  
St Louis, MO

**Angie Burnett**

NCSC FCU  
Panama City, FL

**Yvette Carambot**

Melrose CU  
Woodside, NY

**Mark Curran**

South Carolina CU League  
Columbia, SC

**Jason Dietz**

Erie General Electric  
FCUErie, PA

**William Frye**

Educators CU  
Nashville, TN

**Leslie Hantman**

Envision CU  
Tallahassee, FL

**Stephanie Hawkins**

Flint Area School ECU  
Flint, MI

**Susan Hejnosz**

Credit Union 1  
Lombard, IL

**Terri Holveck**

Valley First CU  
Modesto, CA

**Beth Jaskiewicz**

South Carolina FCU  
North Charleston, SC

**Tyson Johnston**

Denver Postal CU  
Arvada, CO

**Adam Jones**

Arizona Central CU  
Phoenix, AZ

**Maria Kahl**

Summit CU  
Madison, WI

**Richard Lee**

OSU FCU  
Corvallis, OR

**Lawrence Miggler**

Postal CU  
North St Paul, MN

**Jody Miller**

Elkhart County FBCU  
Goshen, IN

**Brad Nozick**

NY State CU League  
Yardley, PA

**Susan Oxner**

Virginia CU League  
Lynchburg, VA

**Kerry Parry**

Mountain America CU  
Salt Lake City, UT

**Luann Schmiedel**

Oklahoma ECU  
Oklahoma City, OK

**Shawne Seibert**

C-Plant FCU  
Paducah, KY

**Victoria Selfridge**

ENT FCU  
Colorado Springs, CO

**EMMA Slusser**

Credit Union of America  
Wichita, KS

**Donna St Clair**

Virginia CU League  
Lynchburg, VA

**Laura Thompson**

Orange County's CU  
Santa Ana, CA

**Dan Veasey**

URW 831 Members FCU  
Danville, VA

**Pam White**

Fresno County FCU  
Fresno, CA

**Connie Wiegshauss**

CUNA Mutual Group  
Madison, WI

**Greg Wilde**

Redwood CU  
Santa Rosa, UT

**Bradley Wood**

Clark County School ECU  
Vancouver, WA

**Terri Wright**

Arkansas CU League  
Little Rock, AR



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