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Hot Banking Tech Companies To Watch In 2009: Q2 Update

This is the third document in the “Hot Companies To Watch In Financial Services” series.

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EXECUTIVE SUMMARY

The banking industry continues to suffer from the global recession and backlash from last fall’s financial crisis. While it’s tempting to believe that bank-related technology investment is dead, financial services firms are actively looking for specialized applications and solutions to help address system weaknesses that they could afford to ignore during the boom years. This report describes eight companies that address diverse or emerging banking industry needs like fraud prevention, sales skills development, and credit and lending efficiency.

IN THE MIDST OF BANKING INDUSTRY PAIN, NEW IDEAS AND OPPORTUNITIES EMERGE

The banking industry looks radically different than it did last year. The top 19 banks have gone through their stress tests largely unnoticed by the public, but mortgage defaults continue unabated with nearly 12% of mortgages at least 30 days late.¹ Credit card debt looms as the next crisis, the “Great Recession,” sweeps up the newly unemployed and once creditworthy. As the banking industry confronts new business challenges, a long economic recession, and some very onerous regulatory changes, Forrester has seen new solutions and vendors emerge to help the banking industry navigate through this historic period.

Forrester has updated its list of banking technology vendors to watch through the remainder of 2009 and into the future. Vendor strategists looking for business development, partnership, or acquisition opportunities should watch these companies because of how they’ve targeted overlooked segments like small banks and credit unions, improved the productivity of bank resources, reduced a growing bank threat, lowered technology deployment risk, or offered a new way to tackle a core process. This is not a comprehensive list nor is it a Forrester vendor recommendation or rating.

COMPANIES TO WATCH IN 2009

Forrester has added the following eight companies as ones to watch in the banking or financial markets technology landscape through the second half of 2009.

Aleri

Aleri keeps banks on track to manage something that’s top of mind for bankers and bank regulators these days — liquidity. Leveraging the company’s complex event processing (CEP) technology, Aleri’s Liquidity Risk Manager (LRM) can help bankers stress test themselves to identify liquidity gaps. Designed for roles in the tier 1 banking market such as senior treasury managers and liquidity risk

managers, LRM forecasts future liquidity needs and surpluses, improves compliance reporting, and informs the bank's overall contingent liquidity risk plan. The company also offers two other liquidity solutions: Liquidity Management System (LMS), designed for global banks and complementing the LRM, and Market Liquidity Analysis (MLA), which helps traders determine when and which markets to trade for the best results. Earlier this year, the company combined operations with its former CEP competitor, Coral8.

- **Why it's important.** Liquidity risk is the risk to a bank's earnings and capital arising when the bank can't meet obligations when they come due without incurring unacceptable losses. With 37 bank failures so far this year, an all-too-regular schedule of two or three new bank closings each week, and myriad federal programs to encourage confidence in the banking system, liquidity matters.² Managing liquidity got harder for banks when they began to rely on brokered deposits, wholesale funds, and the infamous off-balance sheet activity.³ For many banks, determining their liquidity (and associated capital requirements) has been a spreadsheet exercise, complicated by siloed banking structures and by different systems within each silo that clouded the enterprisewide view needed to effectively understand liquidity positions. Furthermore, few could even test how different market stresses would affect their liquidity requirements. Introduced in January of this year, LRM is an especially timely technology solution to relieve some of the stress that both bank executive management and regulators feel.

Black Mountain Systems

Black Mountain Systems recognized that institutional investors, investment managers, and mutual and hedge funds needed better ways to trade, monitor, and manage the risk of their traditional and nontraditional investment portfolios. The company's Everest software provides a single platform to execute trades; aggregate, view, and report on trade data; and handle back-office and watch-list compliance across all asset classes. Everest compares investment performance with a particular index to better understand what contributes to the performance of a particular investment. Black Mountain Systems targets five investment roles — portfolio managers, traders, analysts, compliance officers, and middle office pros — with messages about how Everest can improve role productivity by streamlining workflow and replacing historically spreadsheet-centric processes. As part of the implementation of Everest, the company also offers professional services, which typically involve assessing and documenting the client's own credit and trading workflow process. Black Mountain Systems currently counts 10 clients, including several of the once-independent investment banks, private equity firms, and hedge funds.

- **Why it's important.** The market for credit, which was freezing up even prior to last fall's economic collapse, is now showing signs of thawing, manifest by the number of Forrester client inquiries in the first half of this year looking to explore technology to support some aspect of credit. Automating the trade order management of alternative investments like syndicated loans can reduce back-office costs and improve the operating efficiency of the bank or hedge fund,

a key issue in these leaner times. The system experience needs to be tied to what traders and portfolio managers have grown accustomed to using — Excel spreadsheets. Everest looks and feels like Excel, which means that traders will use it, and the ability to digitize what had been a largely manual process in the past reduces costs and errors.

Dorado

Dorado's mission is to simplify financial processing, starting with the complicated lending process. The company's ChannelMaster suite handles mortgages and other consumer lending, from application and pricing through to underwriting and document generation, in a single platform approach. The ChannelMaster solution is packaged as a software, or cloud, service, meaning faster deployment times and low capital expenditure (capex). Authorized business users can craft rules to implement market and regulatory changes, with little or no IT involvement, speeding up pricing and product changes. Dorado has also built in localization capabilities, including multi-currency and language support, making ChannelMaster particularly appealing in emerging markets like Southeast Asia and the Middle East.⁴

- **Why it's important.** Over the past two months, Forrester has noted a boom in the number of inquiries coming from financial institutions about lending platforms and solutions. What's driving the interest? The recognition by lenders that their existing systems have either been customized to the point where it's become too expensive to maintain them or because separate systems have been implemented for credit card, auto, student, and various residential loans. That lack of a single view exposes the lender to greater risk because it can't easily determine a single customer's loan exposure. In addition, demand from less mature lending markets, such as parts of the Middle East and Asia, make rapidly deployable solutions like ChannelMaster especially attractive.

Egyii

Egyii (pronounced "edgy") targets its local Singapore private and priority banking market and its global constituents situated in Singapore with sales training and development programs. Egyii's training programs are designed to deliver better customer sales experiences that move the bank from being a transaction hub to a financial advisor. The company blends traditional classroom training with ongoing reinforcement through online interactions and social media to help its clients adapt to rapid industry changes and rebuild trust with the private and priority banking customers to drive the conversation of cross- and upsell opportunities into additional business. Egyii targets banking executives and sales leadership, along with HR professionals tasked with staff development who are on the hook for driving bank performance. The company is focused on expanding throughout Southeast Asia in the near term, and, in the longer term, it will focus on licensing its bank sales enablement development methodology through a network of partners throughout the rest of Asia and other regional and vertical markets.

- **Why it's important.** The top Forrester inquiry for banks in 2008? Anything to do with customer experience.⁵ Private banks are looking to differentiate themselves as the lines blur between what private and retail banks and insurance companies are offering to the same high-net-worth and mass-affluent customer segment. At the same time, they're seeking to rebuild trust with their clients in the wake of the global financial crisis and the Bernard Madoff investment scandal. Executing on both means motivating employees to sell in a vastly changed banking environment and changing the bank's value proposition from pushing financial products to solving financial challenges for its private banking customers.⁶ Egyii's blended classroom and social media reinforcement approach makes sales coaching continuous. The company's bank sales consulting offerings drive the changes needed in how bank staffs think about competitive selling and develop the sales proficiency needed to convert customer interactions to sales in a highly disrupted banking environment.

LoanInsights

LoanInsights is addressing the pricing of assets that underlie trillions of dollars worth of mortgage-backed securities (MBS). Based in San Francisco, the company's LoanInsights Secure Mortgage Asset Resolution Tool (SMART) offering combines software and business process. SMART works by aggregating the lending guidelines of both big mortgage lenders and the loans that government agencies like Fannie Mae, Freddie Mac, and the Federal Housing Administration insure in order to assess the current mortgage market. SMART then takes a bottom-up approach in assessing how loans in a portfolio can be underwritten to produce an overall valuation of the mortgage portfolio. SMART accelerates the mortgage modification and workout process by finding the underlying property addresses and borrowers in an MBS securitization and providing investors and lenders with the most current property valuations.

- **Why it's important.** US banks are holding about \$4.7 trillion in commercial and residential mortgages, many of which were packaged up as "sound" MBS investments and purchased by institutional investors like hedge funds, pension funds, insurers, and even the banks themselves.⁷ While the housing market boomed, the lack of transparency in the foundation of these investments was acceptable. When valuations and credit collapsed, investors, regulators, and agencies such as the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve needed to answer two big valuation questions: How should these assets be carried on bank balance sheets and how much can they be sold for in the open market? Because the current value of the MBS is derived from the current value of the property and what can be underwritten in today's lending environment, solutions like LoanInsights SMART bring the transparency needed to assign an accurate value to what's now charmingly referred to as "toxic assets." Accurate property evaluations mean that mortgage terms can be modified to stem the boom in re-defaults, either through better underwriting or by determining that foreclosure is the best course.⁸

ThreatMetrix

ThreatMetrix takes a new aim at online fraud perpetrators by determining the trustworthiness of the device from which an online transaction is taking place, immediately assessing identity, risk, and reputation and scoring the device threat. It targets firms processing high-transaction volumes online such as banks, merchants, payments processors, and alternative payments providers. The service focuses on key events such as new account sign-ups, account hijacking (where someone assumes a customer's identity on a valid existing account), and fraudulent purchases. The ThreatMetrix solution can reject fraudulent transactions on the first fraud attempt rather than identifying fraud patterns from a number of transactions and fraud losses. ThreatMetrix also instantly recognizes returning customers, a valuable way to provide a better customer experience early in the transaction. Deployed as a software-as-a-service (SaaS) or on-premise solution, ThreatMetrix customers are detecting and rejecting fraudulent activity as soon as they deploy the solution. ThreatMetrix is currently processing 1 million transactions daily.

- **Why it's important.** Even in a tough economy, Americans still spent nearly \$470 billion at both brick-and-mortar and online retailers during the 2008 holiday shopping season.⁹ Nearly half the online population conducts virtually all of its banking via the Internet, up nearly 23% from early 2007.¹⁰ Despite the need to make financial services firms more secure in the face of increased threats, security budgets were pinched even before the economic meltdown, to say nothing of having the necessary skills to protect against fraud.¹¹ Solutions like ThreatMetrix that essentially turn the job of identifying and stopping fraud into a transaction-based automated service address the budget and skills gap at a time when cost and threat pressures are both escalating.

Trade Technologies

Trade Technologies accelerates payment for cross-border trade using a global network of trade professionals and a Web-based document management platform to streamline the production and presentation of trade documentation. The company targets international trade banks as well as global exporters, importers, freight forwarders, and large retailers. Trade document production can be outsourced completely to the company, or exporters can use the company's software in-house for automatic document creation and delivery. Clients can track transaction status and view alerts for the next 60 days. The dashboard provides access to any required information, such as status, dates, and reference numbers, about all transactions. Web access allows affected parties to easily collaborate online, meaning compliant third-party transport and other documents can be created quickly, and labor previously spent on manual trade document prep and tracking is reduced. Because the document creation process is automated (meaning fewer discrepancies in the paperwork), payment times are accelerated 15% to 20%. Last year, Trade Technologies processed nearly 20,000 trade transactions worth more than \$6 billion.

- **Why it's important.** One banking segment that's often overlooked by a lot of technology vendors is commercial banking. Commercial banking offers the basics for business owners or corporate customers like corporate payment cards, treasury management, and trade services like letters of credit, financing, and documentary collections. In January and February of 2009, the US exported \$127 billion in goods and services, which means that a lot of transactions between exporters, importers, and their commercial banks needs to get processed.¹² But legacy paper-based processes have slowed down transaction processing times, resulting in increased days sales outstanding (DSO) times for the exporter and delays in getting exported or imported goods into the hands of the supply chain and the ultimate consumer. Solutions providers like Trace Technologies help commercial banks gain a competitive advantage by increasing trade services fee revenue while improving a business process that developmentally has lagged other commercial banking services.

Zoot Enterprises

Zoot Enterprises equips lenders of all stripes — card issuers, retail merchants, and home equity and auto lenders — to offer the most appropriate loan products to customers. The company offers credit-based solutions, ranging from loan origination, instant credit decisioning, and fraud solutions to reduce risk from identify theft. Particularly notable is the company's Prescreen-of-One solution that reduces consumer frustration with direct marketing pieces that imply that they're prequalified for financing only to be turned down when they respond. Prescreen-of-One enables real-time offers at the point of sale. Customers can implement Zoot's SaaS-based solutions quickly, with customers often recognizing business value within 90 days of implementation. Based in Montana, Zoot Enterprises provides services to a number of the top 10 banks, as well as regional banks and credit union service organizations.

- **Why it's important.** According to the Federal Reserve, US consumers are saddled with \$2.5 trillion in consumer debt (not including home mortgages).¹³ Of that, \$1 trillion is what Americans owe on their credit cards. With the mortgage and housing crises old news, the next credit crisis is expected to come from the boom in credit card defaults. But with sweeping changes set to affect the credit card industry that will restrict its ability to charge fees or increase interest rates to offset losses, issuers will be getting smarter (read "more restrictive") with how and to whom they extend credit. Sophisticated lenders struggle with getting an accurate view of risk even within a single institution, thanks to the product and technology silos that they've built to support separate credit products. Prescreen-of-One can span multiple credit products and increase revenues for lenders by ensuring that lenders present their customers with meaningful credit offers.

RECOMMENDATIONS

THRIVE BY RECOGNIZING WHEN TECHNOLOGY ADDRESSES INDUSTRY MARKET CHANGES

The companies noted in this report underscore fundamental changes in the role that technology will play in the broad banking industry in the coming years. To stay on top of banking industry market trends, Forrester recommends that tech marketers looking to enter or expand in the banking market should:

- **Pitch solutions that will drive banking innovations while managing risk.** In this market, banks are looking to provide new services or financial strategies that can help them build tighter and more trusted bonds with their customers. The economy is also driving banks to demand that technology gets delivered in ways that the banking industry might not have considered when they were flush with cash. Offer SaaS options when it comes to delivery, and align messages around the key business driver — reducing time to revenue. Solutions like ThreatMetrix quickly show a return while maintaining a watchful eye on fraudulent activities that cause headaches for banks and for their merchant and consumer customers.
- **Watch for regulatory changes that will test bankers.** It seems like not a day passes when there isn't some new call for more regulatory oversight of banks and money managers, and, in this market, banks are unlikely to get headcount to help with compliance. Technology solutions like Aleri's LRM help compliance officers and treasury managers become more productive with a means to measure and verify compliance. For consultants looking to replace lost revenue, create advisory offerings to help bank risk and compliance officers deal with anticipated regulation.
- **Take a job focus.** Helping people get their daily job done is important for bankers, too, and Forrester has seen a lot more technology vendors offering role-based dashboards to their banking customers. Show bankers how they can do their jobs better by integrating business processes and technology in new ways, using different channels. Deliver business performance intelligence with job- or role-focused dashboards that allow job-holders to get the information they need to be successful in their roles in the way they want it presented.
- **Keep a wary eye turned to the competitive landscape.** Light bulbs are clearly going off in the heads of more technology marketers looking either to preserve their banking market share or upset some slower-moving incumbent. Legacy banking technology vendors will be dealing with new, lower-cost competitors that can effectively and rapidly meet the business needs of the banking market place. That means that tech vendors need to think about their own innovations and examine their own structures and how well and how quickly they can adapt to the rapidly changing needs of the banking industry.

ENDNOTES

- ¹ According to the Mortgage Bankers Association (MBA), for the first quarter of 2009, the combined percentage of loans in foreclosure and at least one payment past due (meaning the percentage of mortgage holders not current on their mortgages) was 12.07% on a non-seasonally adjusted basis, the highest ever recorded in the MBA delinquency survey. Source: “Delinquencies and Foreclosures to Climb in Latest MBA National Delinquency Survey,” MBA press release, May 28, 2009 (<http://www.mbaa.org/NewsandMedia/PressCenter/69031.htm>).
- ² Source: “Morton Community Bank, Morton, Illinois, Assumes All Of The Deposits Of Citizens National Bank, Macomb, Illinois,” FDIC press release, May 22, 2009 (<http://www.fdic.gov/news/news/press/2009/pr09076.html>).
- ³ For a good primer on liquidity visit The Office of the Comptroller of the Currency Web site. Source: “Liquidity,” The Office of the Comptroller of the Currency, February 2001 (<http://www.occ.treas.gov/handbook/liquidity.pdf>).
- ⁴ SaaS and cloud deployment options are well-suited for emerging markets because of consistency with incremental buying patterns, the demand for cost savings and simplicity, and the emergence of local cloud facilities. See the December 19, 2008, “Predictions 2009: Emerging Tech Markets” report.
- ⁵ Customer experience role inquiries aren’t just about customer experience. Bankers, and all the jobs aligned with customer experience, are scanning the competitive landscape, monitoring trends inside and outside of banking, segmenting their market, and asking Forrester about how to build loyal customers. That means they look at the implications of any hiccup in how the bank is perceived — whether due to negative press, a bad service experience, or an unfair fee — on customer churn. See the March 10, 2009, “Inquiry Insights: Financial Services, Q4 2008” report.
- ⁶ Market forces change buyer and seller relationships in every industry. Forrester’s Model-Map-Match approach also shifts the value to solving business problems, not pushing products. See the November 12, 2008, “Engineering Valuable Sales Conversations” report.
- ⁷ Source: David Enrich, Liz Rappaport, and Jenny Strasburg, “Banks Aiming to Play Both Sides of Coin,” *The Wall Street Journal*, May 27, 2009 (<http://online.wsj.com/article/SB124338836675757049.html>).
- ⁸ Fitch Ratings has estimated that between 65% and 75% of modified residential mortgages will re-default within 12 months. Source: “Fitch: 60+ Re-Defaults On U.S. RMBS May Hit 75% After 12 Months,” Fitch Ratings press release, May 26, 2009 (<http://finance.yahoo.com/news/Fitch-60-ReDefaults-on-US-bw-15347771.html?.v=1>).
- ⁹ Source: “NRF Foresees Challenging Holiday Season, Forecasts Meager Sales Gains of 2.2 Percent,” National Retail Federation (NRF) press release, September 28, 2008 (http://www.nrf.com/modules.php?name=News&op=viewlive&sp_id=573).
- ¹⁰ Source: “Online Banking Draws Nearly Half of Active US Online Population,” *Payments News*, March 12, 2009 (<http://www.paymentsnews.com/2009/03/online-banking-draws-nearly-half-of-active-us-online-population.html>).

- ¹¹ Last year, 64% of North American IT security executives stated that lack of budget would be a challenge for them for the next year. See the December 8, 2008, "[Financial Services Security Has A People Problem](#)" report.
- ¹² Source: "U.S. Export Fact Sheet," US Department of Commerce, International Trade Administration (http://trade.gov/press/press_releases/2009/export-factsheet_040909.pdf).
- ¹³ As of March 2009, the total outstanding consumer credit was \$2.551 trillion. Consumer credit decreased at an annual rate of 2% in the first quarter of 2009. In March, consumer credit decreased at an annual rate of 5.25%. Source: Federal Reserve Statistical Release (<http://www.federalreserve.gov/releases/g19/Current/>).