By Matthew P. Lawlor, September 20, 2010

Forging the Way to the Next Generation of Online Banking Services

It's been about 15 years since the company I co-founded, Online Resources, the first outsourcer of internet banking. While many of the early technical and marketing challenges have been solved, there are critical issues facing the industry as the world grows more mobile and demands immediate access to financial services.

Today, I see four key industry initiatives needed to achieve success with the next generation of online financial services:

1. Moving to free authentication
2. Seamlessly integrating delivery channels and content
3. Assuring adequate online capacity
4. Using data responsibly

The Path to Free Authentication

Authentication continues to be a serious impediment to the growth of online financial services. This is mostly due to business politics and positioning, as opposed to technology. Many technology providers see opportunities to profit from their proprietary market positions. This includes service gateways (such as telecom, search and e-commerce providers), secure hardware providers (such as handheld devices and chips), critical data repositories (such as financial institutions and payment networks) and others who touch large numbers of online consumers and business. The problem with this is that no one, especially not the banks, wants to let a competitor—or another business that can become a potential competitor — "control" the customer, or potentially exploit their position, by gate keeping the critical authentication process. The result is gridlock. There has been no real advancement in authentication for 10 years.

There are three ways out of this mess. First, stop focusing industry authentication on just the consumer. The larger need for authentication is in the "back-end" with processes that are shared by multiple providers. Authentication should be enhanced in the backend between third parties, where it's more vulnerable yet easier to develop as you move into cloud computing. Second, providers of first-time consumer authentication should make it free to the consumer and the entire online community. Moving forward, there are profitable opportunities in providing related value-added services. That's where the focus should be instead of trying to make a few mills on every transaction. Third, the federal government should set an authentication standard for its services and procurement, which would help move the private sector into a common standard. With these initiatives, there is hope that the industry can break the current gridlock.

Seamless Integration of Services and Access

As location is to real-estate, integration is to online financial services. Integration of services (e.g. executing payment transactions, actionable alerts, etc.) and content (e.g. primary and third-party account information, data mining, financial management tools, etc.) is essential to next generation online banking. At the same time, banking customers expect consistent information and services across delivery channels. For example, if a customer responds to an actionable message on his or her mobile device, how does a financial service provider ensure integrity and consistency of data across other channels–branches, call centers, ATMs, PCs, other consumer interactive devices and application widgets? Finally, it almost goes without saying that no single financial provider can possibly keep up with all the new and imagined financial services of the future. Better integration of third-party applications is therefore essential to a simple, convenient and seamless consumer experience.

Assuring Adequate Online Capacity

With the geometric explosion of video and other broadband services, the industry runs the risk of having inadequate capacity. The problems some cell phone providers have had in delivering their services is a harbinger of the future. We are at risk that the mushrooming demands of wireless, mobile devices—particularly video and other bandwidth-hungry applications—will hinder robust services. Online financial service providers should begin to re-think the architecture of their applications. Cloud computing is effectively today's data center. It's outsourcing on steroids and holds promise of greater security, mitigated downtime risks, lower capital investment and reduced operating costs. But while the trend will be to centralize data center processing in the network, the financial services industry should be looking to more "on board" processing

in user devices. On the public policy side, the financial services industry needs to abandon support of net neutrality. If the key transport backbone providers can't make a profit with differentiated access, the entire system will slow. It's a recipe for huge capacity bottlenecks in the future.

Using Data Responsibly

Last but not least, what's a discussion of the future of online services without addressing privacy. Like technology, privacy is a double-edged sword. The user community doesn't want their personal information shared without permission. At the same time, consumers are increasingly looking for their financial providers to solve, if not anticipate, their problems. Indeed, for many consumers, the line between annoying advertising and useful information boils down to how well the advertising is targeted. As greater integration and ubiquity drive online services, opportunities to mine data are appealing to both consumers and their financial services providers. This collision of goals can only be solved through consumer choice—primarily opt-in. Giving the consumer dynamic choices—right at the point of interaction, even in real time—may be the mantra of responsible and profitable use of data.

In sum, as Georgetown professor Michael Nelson has said, the future of the internet may be shaped more by standards and business practices than by law and regulation. Many others are forecasting that both information and computing processes will reside on remote servers in the cloud. If, as Nelson predicts, the internet revolution is less than 15 percent complete, there are many critical decisions to be made. Whatever the technologies, the banking industry must play a leading role in those efforts.

Over the weeks and months to come, I'll be examining these issues in more detail.