

CASHING IN

ON CONTENT MANAGEMENT

How Community Banks Are Leveraging
Technology to Improve Business Processes
and Generate Bottom-Line Results



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Executive Summary

Timesaving Tip: For a high-level overview, read this executive summary and scan the subtitles and bullet points throughout the paper.

The Challenge

The current financial crisis has spurred massive change in the banking sector. Bank failures have picked up speed and consumer confidence in large financial institutions has reached record lows. In today's climate of rapid change and constant volatility, community banks must harness technology to achieve profitable growth by increasing operational efficiencies, decreasing the cost of compliance and improving customer service.

The Solution

Enterprise content management (ECM) refers to the tools, technology and processes that enable organizations to centrally and securely manage all of their content, while still offering individual branches, business units and departments the flexibility to react quickly to changing conditions.

This paper discusses the strategic benefits of implementing a best-in-class ECM solution:

- Streamline the loan process.
- Automate collaborative business processes.
- Easily integrate with existing systems.
- Reduce the cost of compliance.
- Improve branch management.
- Decrease paper-handling costs.
- Increase space efficiencies.

The Business Benefits

By transforming manual, paper- and time-intensive processes into automated, digital ones, ECM increases operational efficiencies, decreases costs and improves customer service. For community banks looking to capitalize on the current lack of consumer confidence in larger financial institutions, ECM provides a comprehensive competitive advantage and an incontrovertible return on investment.

Introduction

As a result of the current financial crisis, the banking sector is undergoing massive change. Large banking institutions are damaged, struggling to retain liquidity and stature in the wake of the subprime mortgage collapse and the Troubled Asset Relief Program (TARP). Bank failures have picked up speed, with industry analysts predicting that closures this year could top 150—a number not seen since the peak of the savings-and-loan crisis. The recent failure of several large banks has drained more than ten billion dollars from the federal deposit insurance fund this year alone, and the FDIC expects to lose another \$60 billion over the next five years. Consumer confidence in large financial institutions has reached record lows.

Although many smaller institutions are also in danger, the current economic climate has created tremendous growth opportunities for well-run community banks. With their focus on nurturing customer relationships and supporting local small and medium business (SMB) owners, community banks are strongly positioned to capitalize on the lack of consumer confidence in larger banking institutions. In addition, as the industry consolidates, community banks with capital are poised to take advantage of the down market to acquire and expand.

In order to best seize these growth opportunities, however, community banks must have a clear plan for how to harness efficiencies, solve regulatory and compliance challenges and enhance customer relationships to achieve profitable growth. Leveraging technology is a clear path to success, but community banks

have traditionally lagged behind their larger competitors in terms of adoption. In fact, according to Boston-based research and consulting firm Celent, over the past fifteen years banks with less than \$100 million in assets lost more than fifty percent of their market share to banks with assets in excess of \$10 billion—due in large part to the rise of Internet banking and the smaller banks' inability to efficiently deliver the kind of technological experience that customers have come to expect.

In today's climate of rapid change and constant volatility, community banks must keep up with the latest technological transformations in order to acquire, maintain and grow a healthy customer base. To maximize their investments in IT, forward-looking community banking leaders are turning to enterprise content management (ECM) to increase operational efficiencies, decrease the cost of compliance and improve customer service.

Why Community Banks Are Turning to Enterprise Content Management

Enterprise content management (ECM) refers to the tools, technology and processes that enable organizations to centrally and securely manage all of their content—eliminating information silos and providing employees with timely access to relevant information—while still offering individual business units the flexibility to react quickly to changing conditions.

Organizations across a variety of industries are reaping the well-known benefits of ECM, which include:

- **Improved productivity.** IDC estimates that employees spend 20% of their time looking for information in hardcopy documents; 50% of the time, they can't find what they need. With ECM, employees instantly retrieve all relevant content without having to leave their desks, allowing them to stop wasting time searching through filing rooms and improve their productivity.
- **Reduced paper-handling costs.** The average office spends \$25,000 to fill a four-drawer file cabinet and \$2,000 annually to maintain it—not to mention the costs associated with photocopying, shipping and couriers documents. ECM reduces the costs associated with handling paper documents, thereby increasing profitability and enhancing business value.
- **Increased space efficiencies.** With 250 million new documents created each day, the cost of storing hardcopy documents is increasing daily. By digitizing

these documents, ECM allows organizations of all sizes to reclaim storage space so that they have more room for revenue-generating activities—or the flexibility to downsize to smaller offices.

For community banks, however, there's more to ECM than simple search-and-retrieval and archiving. While eliminating the boxes of signature cards, loan applications and enrollment forms that clutter your branches has immediate benefits, the true impact on your bottom line comes from automating the back-office processes that keep staff from focusing on customer-facing pursuits.

“ At the First National Bank of Durango, we chose Laserfiche because it will enable us to increase efficiency, decrease costs and automate processes such as account and loan opening—both of which have traditionally required a lot of paper and staff time. The flexibility and functionality of the solution are outstanding, the pricing is competitive, and our value-added reseller has contributed a great deal of knowledge and strength to our implementation thus far. ”

Jan Lewis
Information Technology Manager
First National Bank of Durango

Streamline the loan process

According to a recent survey sponsored by Accenture and SAP, branch employees spend nearly 40 percent of their time working on back-office activities rather than customer-facing pursuits. For many community banks, the loan application process is a key offender. Employees spend time gathering paper copies of documents, and support staff manually affixes them within cardboard files. Other employees file them by hand. Files are retrieved manually when they are needed and are re-filed by hand until they are needed next. There is usually no back-up except for microfilm copies of selected crucial elements. Time lags and redundancies abound.

ECM enables community banks to transform this manual, paper- and time-intensive process into an automated, digital form. With ECM, loan departments design custom, automated workflows to fit their unique needs. Workflows automatically

“ If a customer opens an account at one branch, but ends up doing business at another, all their information will be accessible, no matter where they are. We'll reduce costs by shortening the time it takes to request information from another branch, and it will promote better record-keeping in general. ”

Henry Walker
Chief Executive Officer
Farmers & Merchants Bank

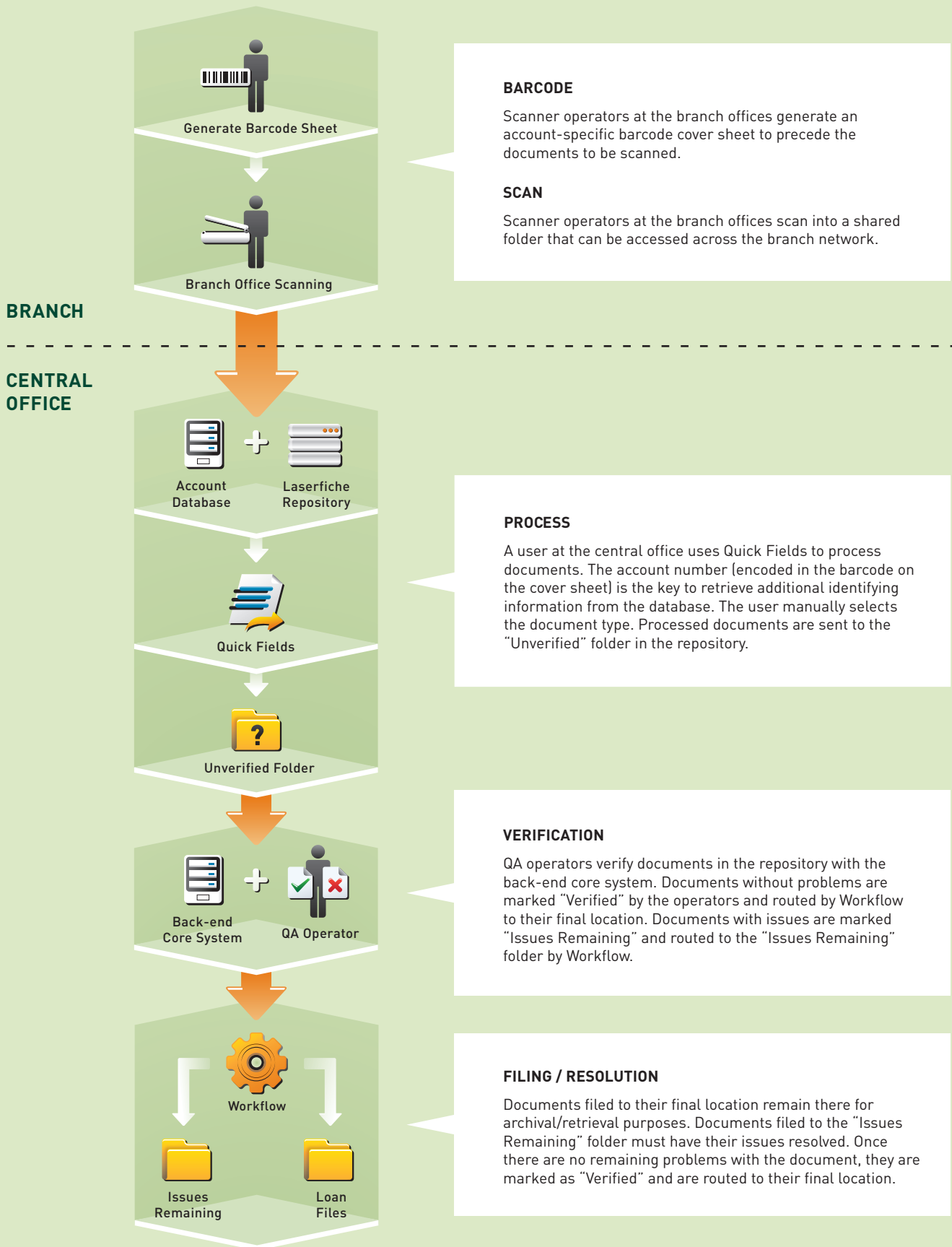
perform specified actions at appropriate times, such as filing newly-created loan applications into appropriate folders, populating template fields and e-mailing documents to identified users for review and approval.

Specifically, ECM can be used to simplify loan processing and underwriting by:

- Electronically routing a customer's loan application file through the origination, closing and funding processes.
- Automatically populating customer or loan index information to reduce manual data entry.
- Tracking missing or expired documents to ensure compliance and reduce risk.
- Retrieving documents pertaining to any relationship based on any one of a number of different indexes, including loan number, CIF number, SSN or EID, document type or collateral description.
- Strengthening loan administration procedures in case of an audit or other examination.

With ECM, staff no longer has to collect, transport and file paper documents before taking action, resulting in improved process speeds for loan applications, fewer lost documents and branch employees with more time to devote to customer service.

AUTOMATE, STREAMLINE AND TRANSFORM BUSINESS PROCESSES ACROSS THE BRANCH NETWORK



Automate Collaborative Business Processes

In addition to loan processing and underwriting, ECM has the power to automate, streamline and transform many other collaborative business processes, including:

- New account opening.
- Human resources.
- Finance.
- Legal.
- Exception handling.
- Expense report approval.

But no matter how much time, effort and investment the head office spends in planning and deploying ECM, if the filing structures or automated workflows are counterintuitive and out of sync with the needs of branch employees, they will not be put to use. According to recent research conducted by The Economist Intelligence Unit on behalf of Laserfiche, 80% of the organizations that have implemented formal initiatives to improve business processes over the past three years have faced employee resistance. Three major causes of this reluctance to change were:

- The new process added more work (31%).
- Employees had little or no say in determining new process (31%).
- The new process didn't map to the way employees thought jobs should be done (28%).

By granting branch managers and department heads control over the automation of their business processes and filing methodologies, best-in-class ECM solutions enable community

banks to neutralize these objections to change. The head office creates organization-wide templates and standards for managing content, and branch-level decision makers determine the best ways to work within their individual groups.

In this way, filing structures and automated workflows can readily be configured to mirror existing processes and procedures, guaranteeing swift system acceptance and enthusiastic use. Local decision makers are also able to easily make changes to their processes and filing structures midstream in order to meet changing business or market conditions, all without sacrificing the organization's control over its information infrastructure—or having to possess deep technical expertise.

Integrate With Existing Systems

Ease of use is essential when deploying ECM to branch employees, but the ease with which the system can be integrated with other business-critical applications and imaging solutions is just as important. After all, ECM doesn't exist in a vacuum; there are many other tasks community banks must complete.

ECM built with an open architecture is designed for integration and interoperability, enabling banks to:

- Easily develop integrations with any non-proprietary software, providing information on demand, as well as document collaboration and movement capabilities.
- Integrate with core applications run on mini and mainframe computers, so any time there is a new account or an account change, updates are automatically reflected in the ECM repository.
- Automatically store reports generated by COLD applications.
- Integrate with applications that enable remote deposit capture and store check images in the ECM repository. With this capability, customers can deposit checks from their own homes or offices while banks decrease the need for paper-based deposit statements and reduce storage fees at clearinghouses.
- Access images of checks from within a customer's file, significantly speeding customer service.
- Integrate with core systems.

The introduction of ECM software should not create logistical challenges for IT support staff. Best-in-class ECM solutions offer packaged integration tools for simple image-enabling and integrate smoothly with a wide range of other software applications, including customer relationship management, enterprise resource planning, portfolio management systems and more.

Cost-effectively cope with compliance

Due to the heavy demands of rules and regulations in the financial industry, community banks are increasingly investing in technologies that facilitate security and compliance. For example, without an appropriate technological solution, compliance with section 404 of the Sarbanes-Oxley Act—which necessitates that banks document and assess every internal process to ensure that material misstatements do not occur in financial reporting—can be both expensive and difficult to implement. ECM enhances compliance with regulations such as Sarbanes-Oxley 404 in two key ways:

- Automation of internal processes enforces standardized operating procedures that ensure data authenticity, integrity and retention.
- A centralized ECM system allows banks to organize and maintain records of these automated processes in a secure, dynamic environment.

Another critical concern when considering compliance is that regulatory authorities expect banks to have business continuity plans in place in the event of a disaster or serious disruption. Nine out of ten banks have IT recovery plans in place, but risk losing their paper records in the face of fire, flood or theft. ECM eases compliance by simplifying disaster preparation and recovery and assuring the long-term accessibility of critical information.

With ECM, compliance with the myriad industry rules and regulations no longer has to complicate your business processes and consume large amounts of time and money. Overall, ECM facilitates compliance by:

- Constantly monitoring document access and retrieval to maintain the highest standards of security.
- Reducing the storage burden of complying with recordkeeping regulations.
- Expediting audits by providing regulators or loan review personnel with instant access to requested files.
- Lowering the labor and transportation costs of both internal and external auditing by enabling remote audits of branch offices.
- Cost-effectively establishing business continuity plans detailing emergency preparedness procedures.

ECM can reduce the cost of compliance by:

- Automating document retention and destruction.
- Reducing the costs of long-term data preservation.
- Managing compliance processes without interfering with lines of business.
- Lowering the costs of supervising branch offices.
- Eliminating the costs of offsite storage and lowering the costs of in-house storage.

Improve branch management

Customers today have copious channels available to meet their banking needs: online banking, mobile banking, ATMs and more. And yet, for community banks with their strong ties to local SMB owners, face-to-face contact with customers at branch offices remains the foundation for overall success. Managing customers effectively at the branch level is critical to a bank's overall performance; if one bank can't do it, there are upward of 7,000 competing institutions ready to swoop in and lure customers away.

In an environment where quality customer service is vital, ECM meets a number of important needs:

- **Improved information accessibility.**

By centralizing customer records in a digital repository, ECM improves information accessibility between branches. For example, a customer can open an account at one branch and seamlessly do business at another since his information is available on demand.

- **Greater consistency of service from branch to branch.**

With ECM, the head office creates consistency by providing standardized templates and tools for managing content. Regardless of which branch a customer walks into, the bank presents a single face.

- **Faster, more informed decision-making.**

By enabling instant search-and-retrieval, ECM empowers employees at all levels to quickly and confidently make well-informed decisions, elevating customer service levels and decreasing wait times.

“As we explored various systems, we knew our choice had to be cost-effective. Laserfiche will reduce our processing costs, improve disaster recovery and clearly enhance customer service. We forecast a full project payback within two years.”

Ronald Caldwell

Director and Head of Operations
Halifax/Bank of Scotland (HBOS) Group

- **Increased investment in customer service.**

By decreasing the amount of money branches spend on paper, storage and shipping, ECM allows branch managers to invest in what really matters: their customers.

How to Get Started

Community banks that are ready to harness ECM to transform the loan process, facilitate compliance and improve branch management will get the most out of their investment when they have a clear, planned vision for how ECM will fit into their overall strategy for accelerating corporate growth. Conducting a needs assessment to uncover the unique requirements of your organization is essential, but to maximize your investment, there are three key questions to keep top-of-mind:

1. Does the system provide global control while still allowing individual branches the flexibility to adapt ECM to the way they work?

Centralized content standards and storage facilitate compliance, create consistency, lead to greater information accessibility and reduce operating costs. At the same time, local flexibility ensures user adoption and empowers branch managers to respond quickly to changing market needs. A quality ECM system does not make you choose between flexibility and control—it allows both.

2. Can the system be rapidly deployed, and will it scale up to meet the needs of a growing organization?

Implementations that take months or years to roll out deplete valuable time and resources and make it difficult to expand the system during a merger or periods of organic growth. Systems with Web-based

access accelerate deployment, and systems that provide unlimited servers accommodate long-term scalability and maintenance.

3. Is the system easy to use—for end-users and IT?

Best-in-class ECM solutions streamline content management and associated business processes without requiring extensive user training. They also store information in non-proprietary formats such as TIFF or ASCII to guarantee future accessibility and compliance, and are built on an open architecture that is designed for integration and interoperability.

As with any needs assessment, best practices dictate that multiple stakeholders from across the organization become involved in answering these questions and identifying the business problems that the technology must address. IT managers, department heads and branch managers should work together to ensure buy-in not only from the people who will implement the system, but also from those who will use it every day.

Conclusion

Times of unprecedented change are also times of unprecedented opportunity. As increasing numbers of financial firms fall in the wake of the subprime mortgage collapse, well-run community banks are racing to capitalize on the lack of consumer confidence in larger financial institutions by bridging the technological divide that has kept them behind their bulkier competitors for the past fifteen years.

ECM—with its ability to accelerate loan processing, improve customer service, streamline multiple business processes, integrate with existing systems, facilitate compliance, reduce costs and improve branch management—provides both a comprehensive competitive advantage and an incontrovertible return on investment. It is a powerful tool for achieving growth and profitability, and it is one that an increasing number of community banks are using to procure organizational prosperity and give themselves a competitive edge.

Case Study: Farmers and Merchants Bank

Organization Profile

Founded in 1907, Farmers and Merchants Bank (F&M) is a leading financial institution in Southern California, with 22 branches throughout the area.

Situation

Branch offices were running out of space to store loan applications and other working documents. With the home office's 26 departments due to move into a new building, F&M needed to adopt compact, digital business processes.

Solution

By implementing an enterprise Laserfiche system, F&M has begun creating what CEO Henry Walker calls a "smaller branch model." Future improvements include automating the loan approval process and extending Web-based business process management to branch offices.

Benefits

- Audit Trail lowers the labor and transportation costs of internal and external audits.
- Departments share information and collaborate more easily.
- Laserfiche strengthens disaster recovery planning by securely storing private customer information.

Laserfiche Components

- Laserfiche server
- Audit Trail™
- Import Agent™
- Quick Fields™
- Web Access™
- Workflow™

Farmers and Merchants Bank

Invests Wisely in Laserfiche

Founded in 1907, Farmers and Merchants Bank (F&M) has grown to be one of the strongest financial institutions in the country by preserving its traditions of honesty, integrity and dedication to the community. One hundred years later, F&M has started a new tradition of technological innovation, positioning itself for another century of success. By implementing an enterprise content management system from Laserfiche, F&M is getting the best of both worlds—good old-fashioned quality service, accelerated to the speed of today's technology.

Since its founding, F&M has experienced steady growth on its way to becoming a leading financial institution in Southern California. Henry Walker, chief executive officer and great-grandson of F&M founder C.J. Walker, saw continued success—and the resultant move to a new building—on the horizon. But with 100 years of success comes 100 years of accumulated manila folders, filing cabinets and banker's boxes.

“We have 22 branches and 26 departments,” Walker says, “so moving to a new building is a major task. We knew we needed to digitize our paper files just to make the move possible.”

A content management system was the logical solution, but there are many systems available. While it didn't hurt that Laserfiche headquarters is just a stone's throw from the F&M central office—both organizations call Long Beach, CA, home—Walker says that the major reason for choosing Laserfiche was its long history of helping organizations like his run more efficiently.

“The story of Laserfiche is very impressive,” he says, “as far as what they've done to develop their product over the last 20 years, and their list of customers.”

That experience came into play when it came time to scan boxes and boxes of signature cards, background checks, suspicious activity reports, enrollment forms and loan applications that

were consuming valuable real estate. Prior to installing Laserfiche, F&M branches needed to either find ever-more creative ways to free up space or rent off-site storage for their paper documents. So far, over half a million pages have been scanned into the Laserfiche repository.

According to Roy Chung, the Laserfiche solutions engineer who's overseeing the installation, going digital will pay the bank and its customers big dividends, both now and in the long run. "Digitizing these forms will eliminate digging through file cabinets for information—which could take days," he says. "And by integrating Laserfiche with F&M's bank management software, both branch and main-office staff will be able to access all these documents from the interface they're used to working with."

While some departments are in the midst of back-file conversion projects, others have moved right to day-forward scanning. Walker says that this practice will reduce branches' operating costs while developing what he calls a "smaller branch model."

Digitizing all these documents will not only reduce storage space needs, but also improve business processes for the entire organization. Connecting all of F&M's branch offices to the central office using Web Access will improve communication between branches and promote more holistic customer service.

As Walker explains, "If a customer opens an account at one branch, but ends up doing business at another, all their information will be accessible, no matter where they are. We'll reduce costs by shortening the time it takes to request information from another branch, and it will promote better record-keeping in general."

As anyone who's ever applied for a loan knows, a bank's lending department is especially prone to paperwork bloat. Between appraisal orders, credit reports, approval statements and mandatory borrower notifications, a paper loan file can be inches thick. For F&M, however, the loan

application process will become significantly more compact through the use of Laserfiche Workflow. As Debra Allen, vice president and credit administrator, explains, "No matter which branch takes a loan application, the lending and loan support departments will have instant access to the entire file—no more driving to the main office.

"We have numerous support departments that exchange information throughout the entire loan process," she elaborates. "These departments work together with the branch staff during the loan application, underwriting and

“It's pretty obvious that we'll realize both cost savings and customer service improvements in the long run.”

approval processes. Workflow will automatically route this shared information between departments, from the point of loan application through loan closing.”

Laserfiche is well-known for increasing information accessibility. But its security features will ensure all that information's integrity—a must for any financial institution. The security and compliance departments will rely on Audit Trail to monitor activity in the Laserfiche repository, gaining increased oversight through automated notifications of suspicious activity. Audit Trail's Web reporting utility will also lower the labor and transportation costs of both internal and external auditing, because auditors will be able to audit branch offices remotely rather than on-site.

Not to be overlooked is Laserfiche's contribution to F&M's disaster recovery plan. Notes Walker, "We already had disaster recovery measures in place, but Laserfiche helps to strengthen them. Because customers' critical documents are stored and backed up securely, we won't have to salvage paper files or ask customers for new copies of their private information in case of a disaster."

With the move set to happen this September, F&M is well on the way to establishing a technology-driven culture. "Almost every department will be using Laserfiche—250 to 300 users in all," Walker reports.

Although F&M is still in the beginning stages of its Laserfiche implementation, the ease of installing their system bodes well for future results. "We put together a Laserfiche task force for this project," Walker says, "and they've found it easy to implement. It's pretty obvious that we'll realize both cost savings and customer service improvements in the long run."



The Laserfiche Institute teaches staff, resellers, and current and prospective clients how to use Laserfiche most effectively. As part of this mission, the Institute conducts more than 500 Webinars each year, covering a variety of topics. The Institute also hosts an annual conference where members of the Laserfiche community attend presentations and network with each other to share ideas and learn best practices. Additionally, the Institute conducts a number of regional training sessions and provides resellers with content for over 100 user conferences each year.

The Institute also develops and distributes educational material through the Laserfiche Support Site. On this Website, clients can access training videos, participate in online forums and download technical papers and presentations that help them become even savvier ECM users.

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