ATTITUDES OF SENIOR BANK EXECUTIVES TO FORTHCOMING CHANGES IN BANKING

INPUT

701 WELCH ROAD, SUITE 1119, PALO ALTO, CALIFORNIA, 94304 (415) 854-3422

ATTITUDES OF SENIOR BANK EXECUTIVES TO FORTHCOMING CHANGES IN BANKING

- This study is based on on-site interviews with executives in 40 banks; these were distributed by bank size and geography, and executive function as shown in Exhibit 1.

EXHIBIT 1

INTERVIEW DISTRIBUTION

	DEPOSIT SIZE ($ MILLION)				
	100-300	300-600	600-1000	1000-3000	TOTAL
STATE					
Washington	1	1	1	1	4
Colorado	1	1	1	1	4
Texas	1	1	1	1	4
Ohio	1	2	1	1	5
Indiana	1	-	1	2	4
Florida	3	-	-	1	4
Virginia	1	1	1	1	4
Pennsylvania	1	-	1	1	3
Missouri	-	2	-	2	4
Illinois	-	1	1	2	4
TOTAL	10	9	8	13	40
EXECUTIVE TYPE					
Senior	3	3	5	5	16
Trust	7	7	5	9	28
Operations	4	1	4	10	19
TOTAL	14	11	14	24	63

RESULTS OF THE STUDY

A. CONCERNS OF BANK EXECUTIVES

1. Senior Executives

- The major concern of senior executives overall is EFTS, as shown in Exhibit 2. Of those expressing this concern, almost all of them felt it was a concern in the next two years and that it would continue on over the next five years. Executives were concerned about EFTS from several viewpoints:

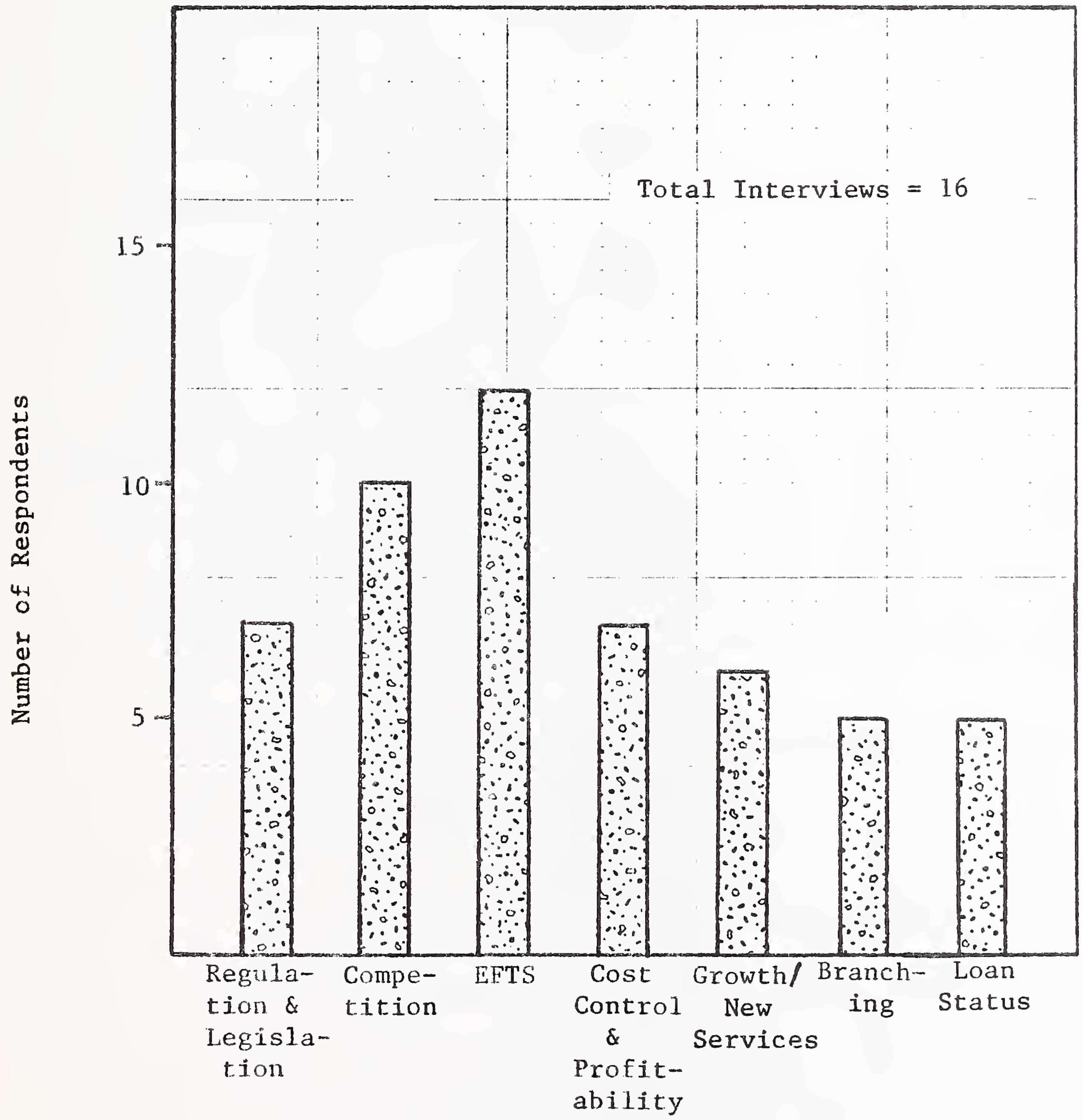
  - Cash investment (capital) requirements
  - Impact on competition

- The capital requirements of EFTS were viewed as entailing high risk because of technology changes and the competitive nature of the business. Additionally, the profitability of such services was called into question by some respondents. In this context, pricing of such services was expressed as a concern by several executives: one respondent noted that his bank sold services to a local savings and loan company which then "gave" the services away free to its customers. The problems of competitive pricing in such an environment were serious considerations.

- Not surprisingly, the next most serious concern of the senior executives was that of competition, particularly that of'unfair'competition from the thrift industry. Here, most executives concerned about competition were looking for it to become more serious in the 2-5 year time frame. In some cases it was identified as being due to the impact of EFTS opening up the retail market to competition. Half the respondents in this category

EXHIBIT 2

CONCERNS OF SENIOR EXECUTIVES



felt that competition was their most serious concern looking out towards 1980.

- The regulatory and legislative environment was of significant concern, particularly relating to:
  - Enabling of EFTS
  - Competition from thrift and other sources
  - Branching and expansion
  - General trend to over-regulation

As one respondent expressed it, there is a movement towards treating banks as financial utilities to be controlled and regulated as other utilities. Congressional legislation, particularly in the competitive area, appears to be anathema to bank executives. Indeed, virtually all regulatory and legislative changes are viewed negatively by banks with the exception of hoped-for branch banking changes in several states. In this context, one executive in Florida was a little more sanguine in that he expected to be able to sell services to S&Ls and develop a substantial market there.

- Two areas of concern that could be expected to rank high on a more traditional basis were loan control, including real estate loans, and profitability or cost control. Both of these were concerns in the short term rather than over the 5 year horizon. Loans were a particularly sensitive issue in Florida and Virginia. Future credit risks and the need to expand quality borrowing were also identified as issues. However, it appeared that future loan consideration would primarily be at the department level rather than the senior executive level, once the major problems were ironed out.

- In terms of profitability, personnel costs were advanced as the major factor to be controlled, although several executives were concerned with EDP

and its costs, outside of EFTS considerations.

- The final two areas of significant concern to senior executives were also related: branching and the movement to new services were of concern to almost a third of the respondents. In that EFT is related to electronic branching in some areas, there was a double concern in the extent to use electronic branches instead of "bricks and mortar" as well as the degree to which branches should be established. In states such as Pennsylvania, there was a concern as to whether branching or acquisition would be the way to go.

- New services certainly involved EFTS but also changes in the basic services were identified as a concern. Specifically, the move towards the merger of DDA and savings accounts with the consequent payment of interest on deposits, was an area with considerable impact on systems, pricing, and competition.

- As far as overall growth was concerned, branching was viewed as potentially the most significant avenue of growth. Whether this would be accomplished "de novo" or by acquisition was of concern in several states. Basically, however, the move towards acquisition seems slower than might be expected given the competitive and technical environment. Only two banks, one in Ohio and one in Florida, expressly stated they would be making acquisitions.

- In terms of growth rates, Florida and Ohio banks expected to grow fairly consistently: one large Florida branch stated it would double in 5 years at its current growth rate. Some indication was that Texas banks would also grow quickly. Pennsylvania, Virginia and Indiana banks appeared to expect stability or moderate growth.

- Management of the float is a concern that was not once volunteered by a senior executive but which scored very high once it was identified. The level of concern was higher in the larger banks as would be expected. Those banks with multi-state or international operations had more immediate concern in this area.

- It appears that banks have expended considerable efforts to control float. Such comments as "It is a problem area, but is improving" were frequently voiced. Banks have installed input analysis systems such as proof-of-deposit; packages have been developed and sold quite successfully in this area.

- In examining the extent of senior executives' concern about competition, the thrift industry, particulary S&Ls, is of overwhelming impact as shown in Exhibit 3. Expansion of large banks either on a state or national basis was nowhere near as important in the minds of senior executives. However, no evidence was volunteered of the actual projected impact of S&L competition on the volume of business of banks.

- The main concern of senior executives appears to be not the magnitude of the projected impact, but the way it will be done. Several executives stated that they would have no problem with the competition from S&Ls, provided they were forced to maintain the same reserve requirements, and the "discriminatory" interest differentials were removed.

- One respondent identified trades unions as a factor in the competitive environment. This has also been identified as a potential problem in operations, particularly EDP. The impact of unionization on bank operations would be very serious from the point of view of:

    - Control of personnel costs

EXHIBIT 2

SENIOR EXECUTIVES CONCERN ABOUT FLOAT

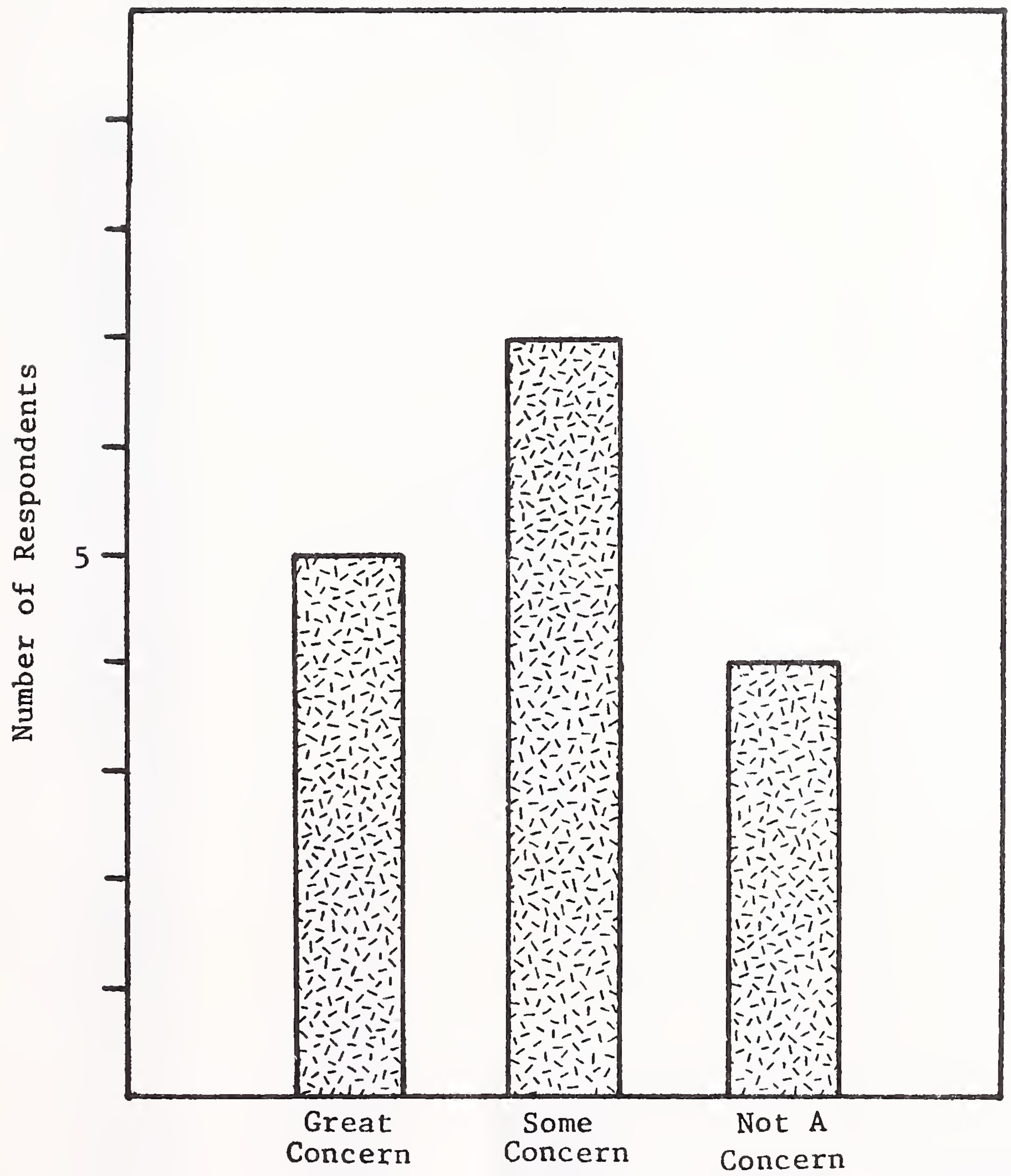
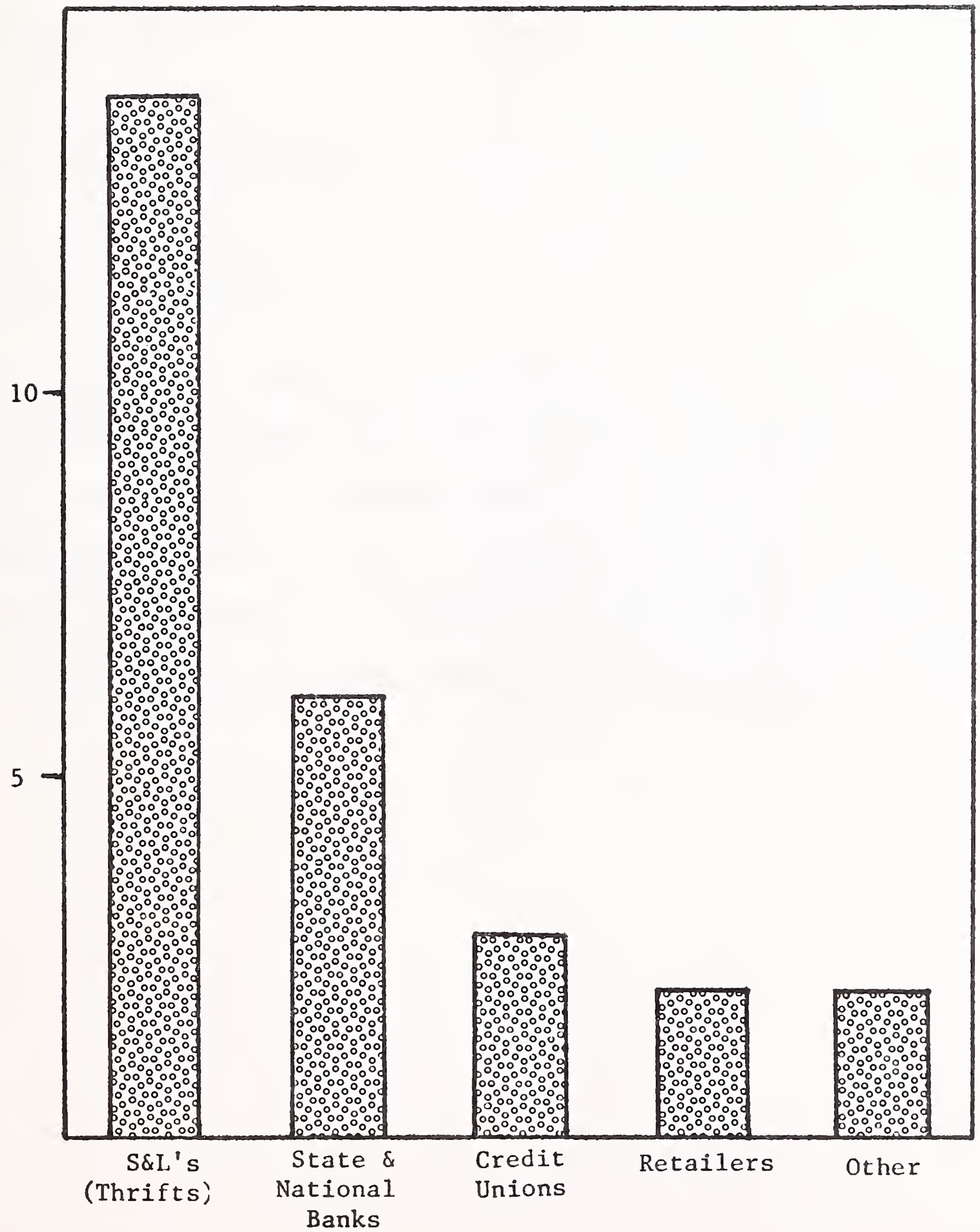


EXHIBIT 3

SENIOR EXECUTIVES CONCERN ABOUT COMPETITION



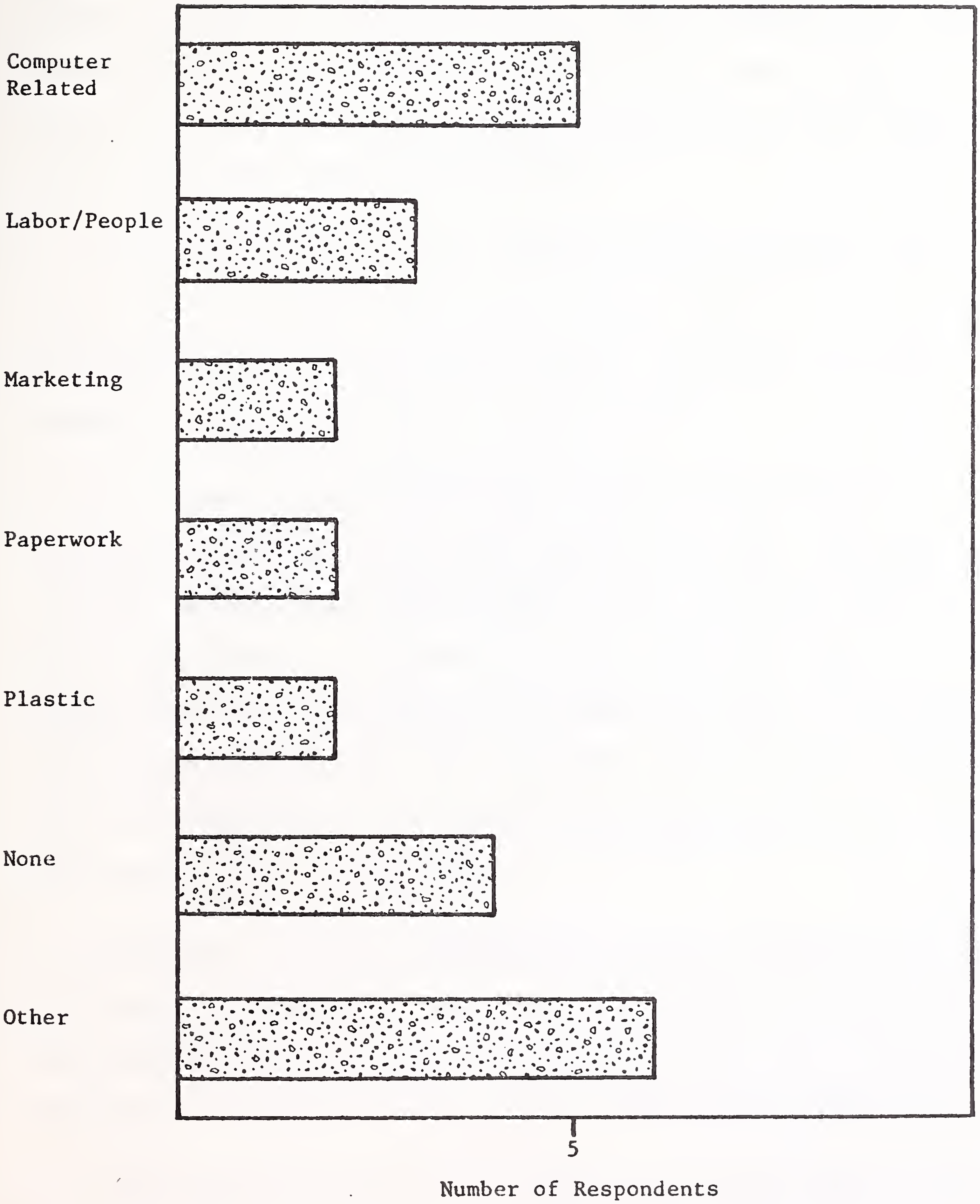
- Replacement of people by automation

- Operational concerns that rise to the senior executive level are distributed among several areas as shown in Exhibit 4. There is no clear over-riding concern, except perhaps the use of computers. In this, executives are concerned about centralization versus decentralization, changes in technology, system development, and the structure of computer/communications networks.

- A concern that begins to appear at this point in the interview process is that of marketing. More than just pricing or getting into new services, executives are concerned about the overall approach to the various banking markets which will exist. In many cases the size, nature and distribution of these markets is unknown now. Hence, marketing becomes increasingly evident as a serious problem area in the responding banks.

EXHIBIT 4

OPERATIONAL CONCERNS AT SENIOR EXECUTIVE LEVEL



2. Trust Executives

- Half of the trust department executives interviewed (responsible for approximately $25 billion in assets) were concerned about their computer system over the next two years, as shown in Exhibit 5. They were updating their system to allow for growth, many of them moving to an on-line environment. This was viewed as extremely important by many of the executives interviewed.

- The updating of systems often involved package procurement from another bank or a vendor. North Carolina National Bank and St. Joes were mentioned several times in this context. The latter is an old system and primarily is being used by smaller banks.

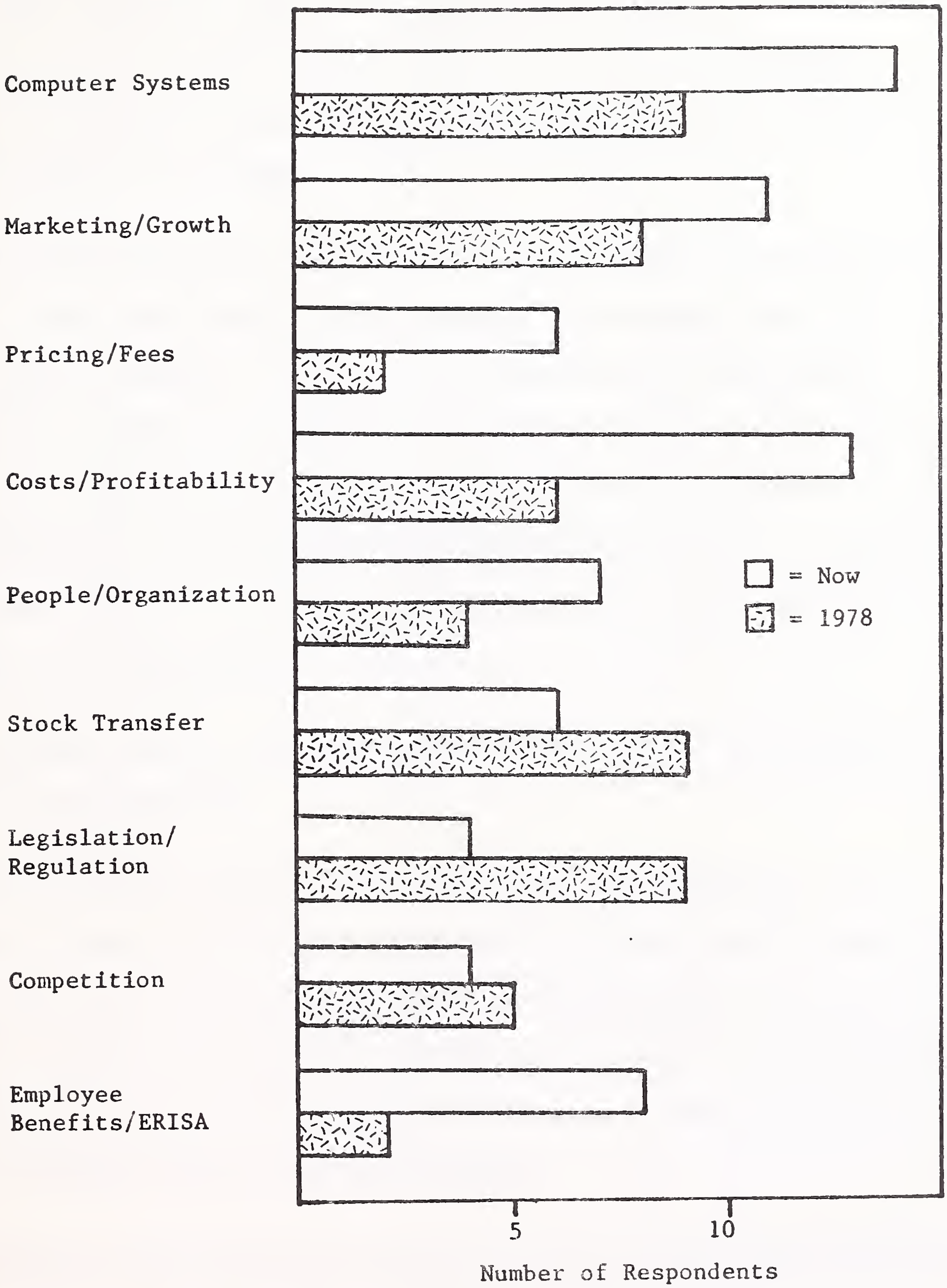
- A continuing problem in EDP is that of obtaining priority for trust needs in competition with other bank EDP processing. Although the requirements of trust EDP are among the more complex in a bank and the trust use of its computers is often a significant proportion, neither EDP nor bank executives will give their development requirements the support or priority that trust department executives want. This is one of the main reasons trust executives may look to outside support or are considering use of minicomputers.

- Use of EDP is strongly emphasized as a weapon in controlling costs. For example, the executive in charge of a $220 million asset trust department mentioned a 45% increase in accounts was handled with a 22% decrease in personnel through a new system put on a IBM System/370, Model 145.

- Small departments with $10-50 million of assets were generally not computerized yet. But, even at this size, with 10 or 20 people, there is a recognition of its importance.

EXHIBIT 5

CONCERNS OF TRUST EXECUTIVES



(Total Respondents = 28)

- The next most frequently mentioned concern of trust executives was that of profitability and controlling costs. These have been combined for presentation. As one executive with a $700 million asset trust department said, "Profitability is overstated - it is the reasons for profitability that are important". As an issue, profitability was enhanced because of the recent trust conference in Atlanta which had this as its theme.

- In controlling costs, trust executives were mainly concerned about people. These were viewed as very expensive, with perhaps 75% of the budget being in payroll. In fact, 25% of the executives specifically identified personnel as a major concern; their availability and training, as well as costs are factors in this. One of the major problems in making system changes is the inertia of the people in the department. Installation of any new system must be accompanied with extensive education and training in order to be successful.

- Both profitability and computer systems were viewed as continuing concerns by the executives.

- The corollary of cost control in maintaining profitability is increasing revenues. This appears to be more of a basic concern to executives than cost control. They know how costs can be controlled; by cutting people, reducing expenses, cutting computer bills, etc. However, they generally do not know how to market in the changing environment. This is particularly true in personal trust and employee benefits.

- Related to marketing and profitability is the concern over pricing and fee structures. This concern can be broken into two areas:

    - Basis for pricing, (assets or services rendered)

- Amount of fee (price) to charge

- Several respondents intended to change from an asset-base fee structure to a fee-for-service concept, particularly in newer programs. The basic problems with selling this to their clients were of major concern to these respondents. On the other hand the trust executive of a $4 billion department stated that they had considered changing fee base and had rejected it. Basically he stated he "believes long-term growth in equities will continue". They made money in a "down" market and have made even more in the last year.

- As far as the amount of fee to charge, many departments have not had regular pricing review procedures and in some instances the prices have not been changed in many years, up to 12 in one case. One factor, of course, in the probate area, is regulation of fees.

- Another factor in establishing pricing policies and fees is the availability of profitability information. One specific need that was identified was for good cost accounting information. Executives want to have profitability data by type of service as well as individual accounts. This is generally not available.

- One consequence of cost analysis at the overall level, is a major concern of trust department managers on the viability of stock transfer as a long term business. There was an indication that some banks would stay in it only to provide services to favored corporate customers. Smaller trust departments particularly consider it a non-profitable business.

- However, concern over profitability in stock transfer was not limited to small banks. One multi-billion dollar department got out of it several years ago; two large Texas banks both considered they may get out of it

because it was not profitable. Similar size banks in Indiana and Colorado expressed the same sentiments. One bank in Ohio considered it may drop it but that "things were much better now that they have gone with Bradford".

- Another reason for concern in this area, and the specific reason for an increase in the level of concern, is the trend to "certificateless" stock transfers. By replacing certificates, many departments wonder if the stock exchanges will put them out of the business.

- Legislation and regulation were viewed as increasingly important. Impacts in several areas were of concern:

  - Reporting requirements
  - Restrictions and controls in the employee benefits/ ERISA area
  - Tax implications
  - Restructuring of estate taxes
  - Probate law changes
  - Potential "spin-off" of trust departments from banks
  - Liabilities in trust fund management and potential for malpractice suits

Over the long term, this is likely to be the most serious concern of trust executives.

- With regard to the potential "spin-off" of trust departments, the statement was made that few of them have the capital and resources to survive such a traumatic experience.

- In competition, the main concerns voiced affected the employee benefits area. Here there appears to be a scramble for accounts among

insurance companies, credit unions, savings and loans, and the banks, not to mention investment advisors. Law firms were also identified as being increased competition in the personal trust area.

- ERISA and employee benefits in general were specifically identified as concerns by almost a third of the respondents. This is probably due to the emphasis that trust departments are placing on it as an avenue for future growth. The extent of the bank penetration in the market was identified as a problem: it has dropped to maybe 50%. Also, reporting and regulatory issues were of concern.

- Other concerns mentioned included some fundamental issues raised by a few of the executive officers of very large trust departments. Over the longer term they are concerned with the distribution of wealth and how it may change. One executive of a multi-billion dollar department commented that there would be "a deconcentration of individual wealth and a concentration of shared wealth". A consequence will be the decline in size of the average personal trust account. This corresponds with the goal several managers expressed of targeting on smaller accounts in a profitable manner.

- Other concerns were Depository Trust Companies and their potential benefits, trades unions, and the establishment of common trust funds.

- Security regulation changes were of concern to more than half of the respondents. However, only 6 of the respondents considered the regulation changes serious. In fact, respondents often asked which changes were being referred to. The responses also indicate that executives were generally not familiar with the changes.

- In general, the large and very large trust departments were more

concerned about these changes than the smaller ones, possibly because of greater familiarity with, and exposure to, the problems. Such comments as "a pain in the neck" were made. Particular problems were identified in the volume of reporting required. One executive commented that SEC couldn't possibly use all the data collected. The finger-printing requirements were mentioned in passing as bothersome. The major concern expressed was the impact on liability in the investment management function. This will probably increase as awareness of the impact spreads.

- Exhibit 6 shows that there is a fairly even distribution among trust executives as to concern over float. Only 6 of the 28 respondents felt very strongly about it. One respondent remarked "only the American housewife can live on a zero-balance budget"!

- Particular concerns in the area relate to two kinds of float:
  - Uninvested customer cash
  - Dividend and interest income, and funds from sales of stocks and bonds

The first earns money for the department, the second loses it.

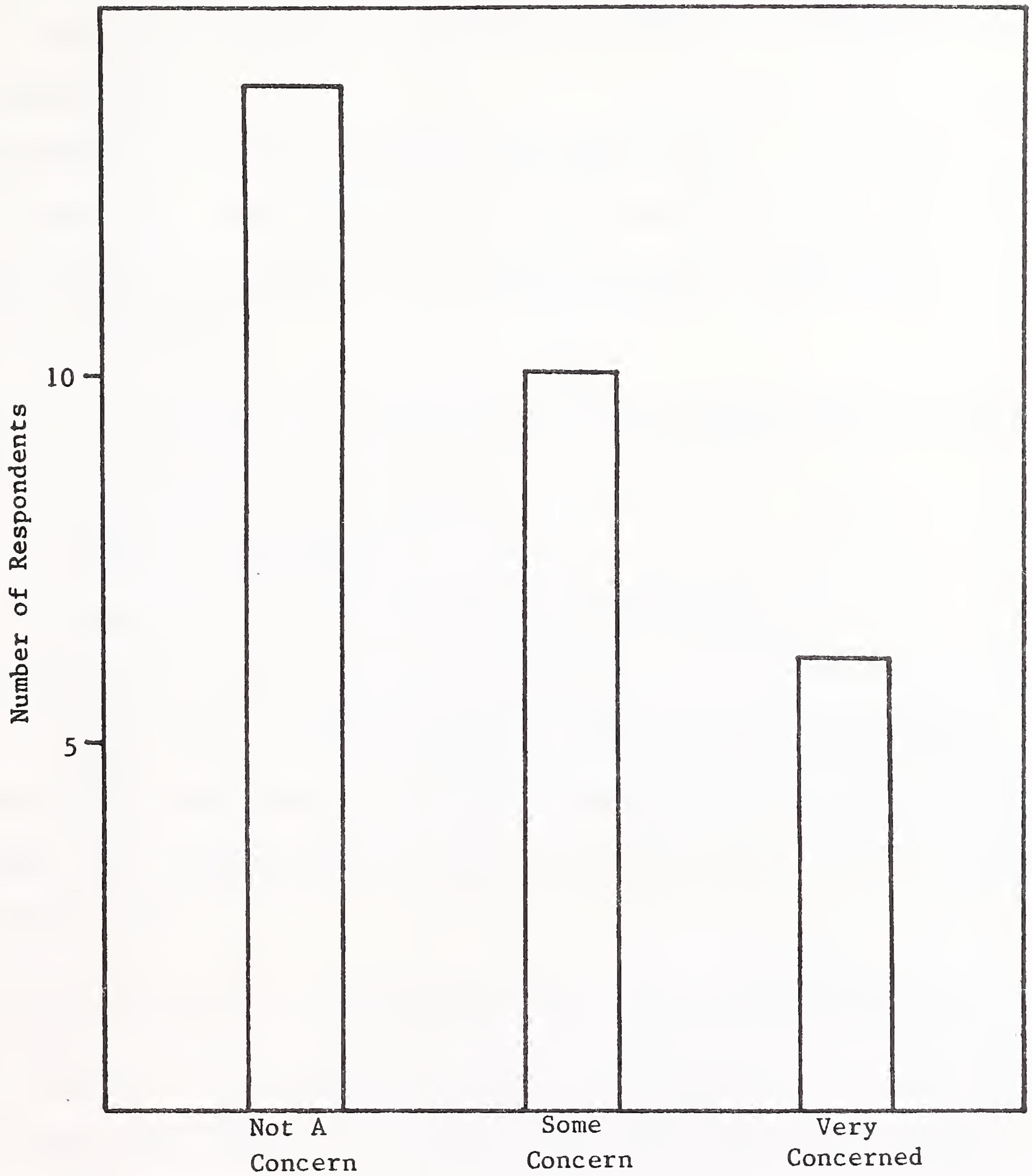
- Uninvested customer cash can be considered separately under "principal" and "income". There was general agreement that sizable amounts of uninvested principal were not going to be acceptable. Some banks felt that $100 per account was possible, others considered this too low to be profitable and that $1000 would be more reasonable.

- For uninvested income, the solution appeared to be more frequent payouts, but again the profitability of such a measure was the countervailing force.

- As far as the banks' collection of float was concerned, the general

EXHIBIT 6

EXTENT OF CONCERN OVER FLOAT MANAGEMENT



consensus of the delay between payables date and receiving "good" funds was 2 days. This was regarded as too long by a number of executives, who stated the ideal delay was zero.

- All trust executives who were asked were familiar with the concept of Master Notes. As expected, the larger departments were more inclined to be users than the medium and smaller departments. One executive of a small department stated that he had been asked to participate but wouldn't because it "didn't fit their style of business!

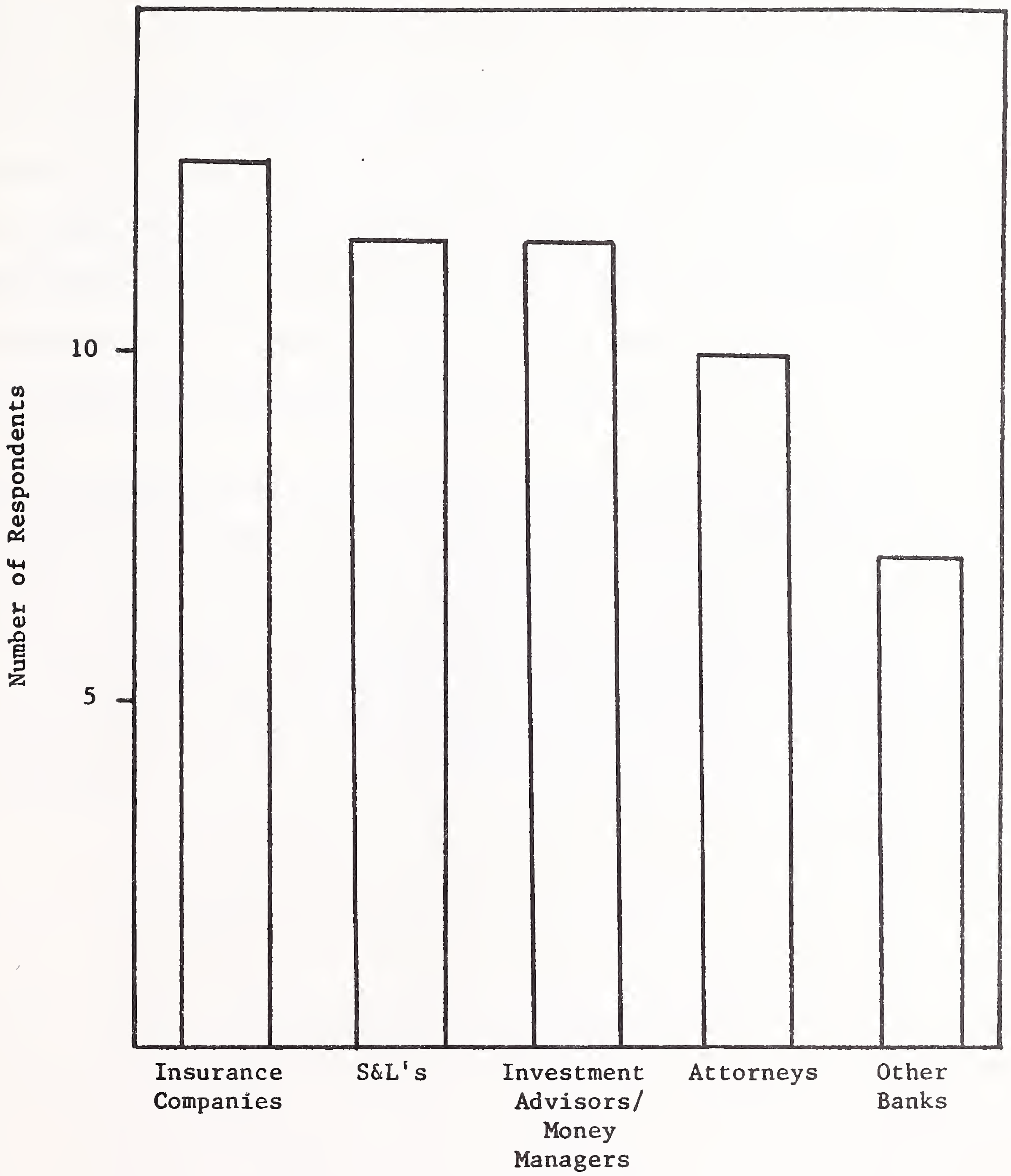
- Short term cash held in customer accounts was distributed as follows:
    - Master Notes, 4 respondents
    - T-Bills, 4 respondents
    - Short term common trust funds, 2 respondents
    - Short term money funds, 2 respondents
    - Other: pools, commercial paper, credit notes, 4 respondents

- Several respondents were establishing or planned to establish short term common trust funds precisely to meet the demand for investment of short-term available cash.

- Insurance companies were identified most frequently in terms of competitive changes in the trust area, as shown in Exhibit 7. Particularly important was their thrust in the pension, employee benefits and personal trust areas with quaranteed interest rates. One $4 billion trust department executive considered insurance companies the best at handling "fixed money". It was also stated that "they have 100 salesmen to our 1". On the other side, their salesmen are motivated by large commissions which tend to drive the costs up.

EXHIBIT 7

COMPETITIVE SOURCES OF CONCERN TO TRUST EXECUTIVES



- Savings and loans, investment advisory services, and attorneys were also viewed as significant competition, real or potential, in the personal trust area. S&Ls were being enabled to enter the market and investment advisory services/money managers were already in it in a sophisticated manner. Attorneys were establishing trust services departments in several states; in other states, however, such as Florida, not much change was envisioned in their activities.

- Bank competition was not projected to change much in the personal trust and employee benefit areas. However, money center banks were expected to spread out and particularly attack in the corporate trust area. In this context, the acquisition of Security Trust by Northern Trust was viewed as a major competitive development by one trust executive in Florida.

3. Operations Executives

- Costs and related profitability was the chief concern of operations executives as shown in Exhibit 8 . Furthermore, when mentioned by respondents, costs was often the number one priority.

- Closely following costs was the concern of executives with the whole field of technology and data processing. This was supported by the executives in their concern with new services and the whole EFTS environment. In many cases these may simply have been different facets of the same underlying concern.

- EFTS and technology developments will certainly take considerable capital investment and the affect on the way the banks actually operate could be traumatic, hence the concern of these executives with the whole area.

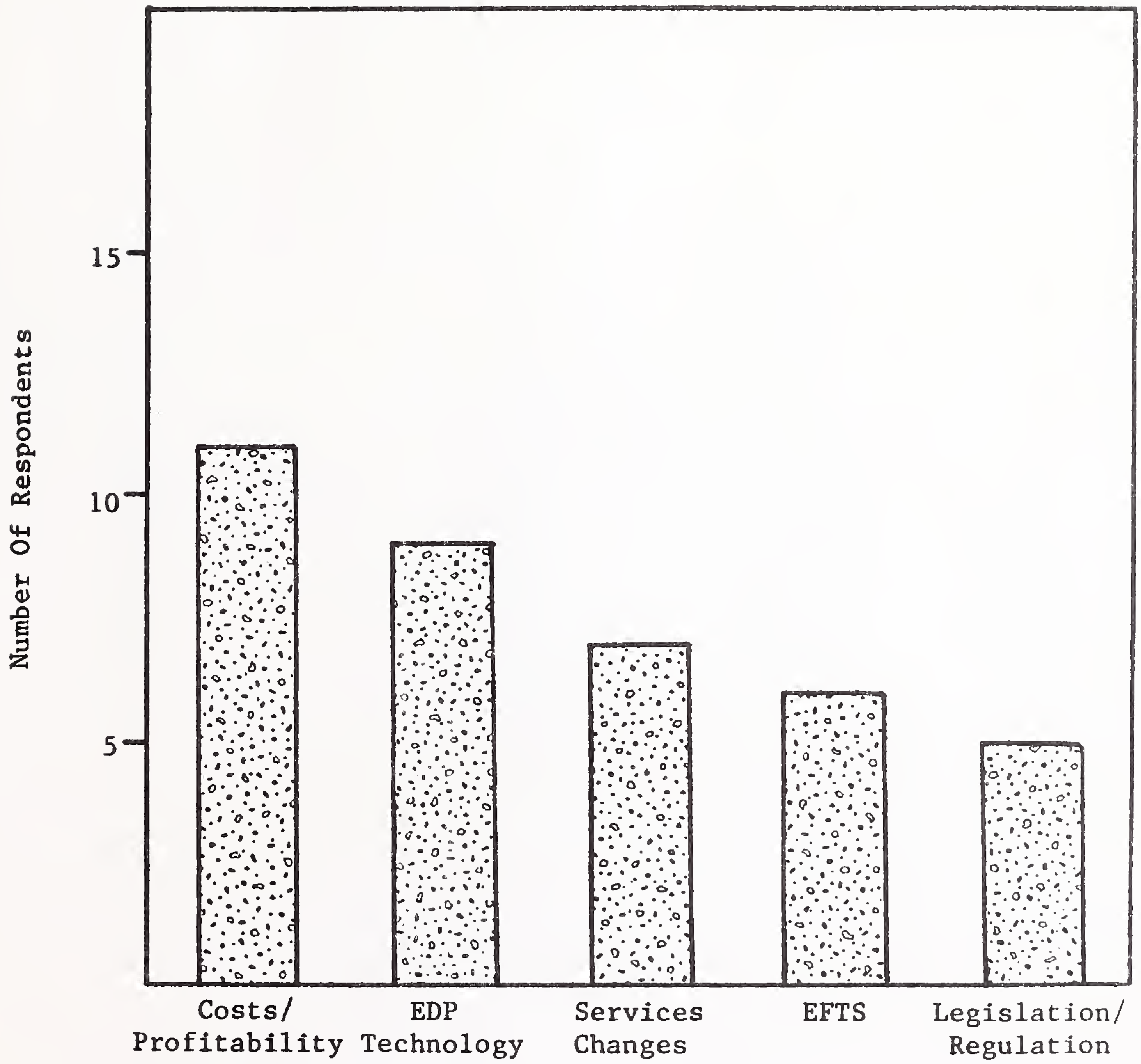
- Even the regulatory and legislative concerns lay in the area of allowance of off-premise and on-premise electronic terminals in the main. However, there were other concerns in states such as Pennsylvania, Illinois and Missouri on the affect of branch banking law changes. Several executives were particularly concerned in this area.

- Other concerns raised were varied but often referred to personnel and other changes expected as a result of automation:

    - unionization
    - personnel, 3 responses
    - branch banking, 2 mentions
    - standards and performance measurement
    - capital requirements, 2 mentions

EXHIBIT 8

CONCERNS OF OPERATIONS EXECUTIVES



- In this context, the specific operations concerns of systems and personnel were obviously important as shown in Exhibit 9 . Also the sheer volume of paper that is processed was a major concern to several executives, particularly in the check processing area. Again the personnel and costs associated with this were of concern.

- In this context, the specific operations concerns of systems and personnel were obviously important as shown in Exhibit . Also the sheer volume of paper that is processed was a major concern to several executives, particularly in the check processing area. Again the personnel and costs associated with this were of concern.

EXHIBIT 9

OPERATIONS CONCERNS OF OPERATIONS EXECUTIVES

Concern	Mentions
Systems and Technical	7
Personnel and Training	5
Costs	3
Check Handling	3
Paper Volume	2
Legislation/Tax Structures	2
Loans/Real Estate	2
Other	3

B. CHANGES EXPECTED BY EXECUTIVES

1. Senior Executives

- Because of the extent of the unknowns in their concerns, senior executives did not advance many specific actions that they were taking to address these concerns. Perhaps the most significant response was that almost half of them expected to make use of systems, or technology developments. Also, "planning", "studying" and "watching" were courses of action adopted.

- In terms of expected organization changes, there appears to be a major dichotomy on how banks will approach the question of centralization/ decentralization, as shown in Exhibit 10. There is some variation by state with Virginian banks intending to consolidate and Ohio banks tending to decentralize.

- The dichotomy may be partially explained by the fact that certain operations functions are being consolidated while business decisions are being decentralized, as a Missouri bank executive reported. However, in the EDP area, there is a definite trend to decentralization, provided the bank already has a single, unified, EDP operation. Those that do not have this may still consolidate before they, too, go to decentralization.

- Operation changes expected are consistent with the decentralization of EDP as on-line systems become more prevalent, as shown in Exhibit 11. Such systems require a certain amount of local intelligence in order to keep bank branches and terminals functioning when the central computer and/or communications lines become inoperable. Remote banking means the whole environment of ATMs, CBCTs, and POS terminals.

EXHIBIT 10

SENIOR EXECUTIVES VIEW OF ORGANIZATIONAL CHANGES

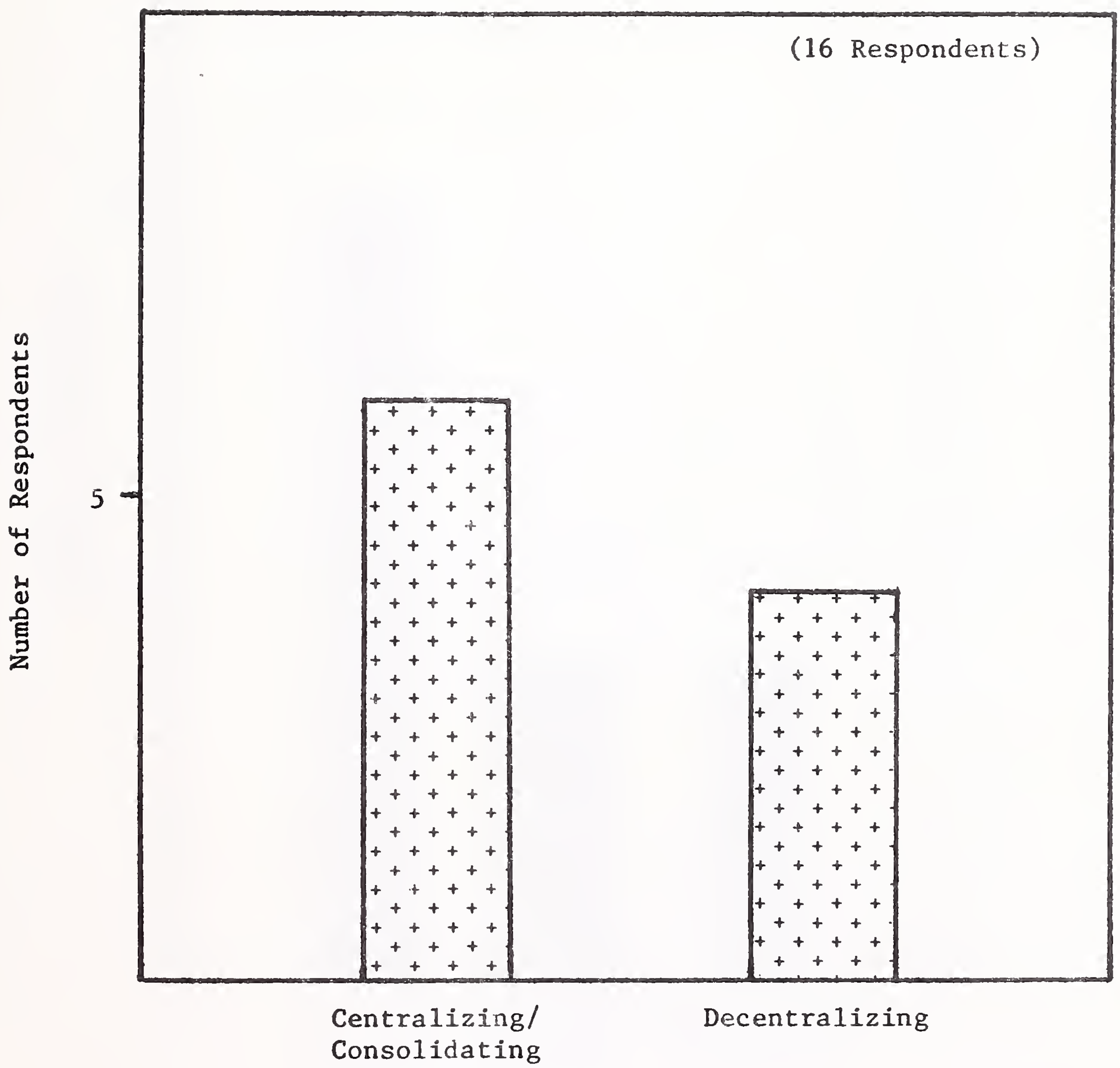
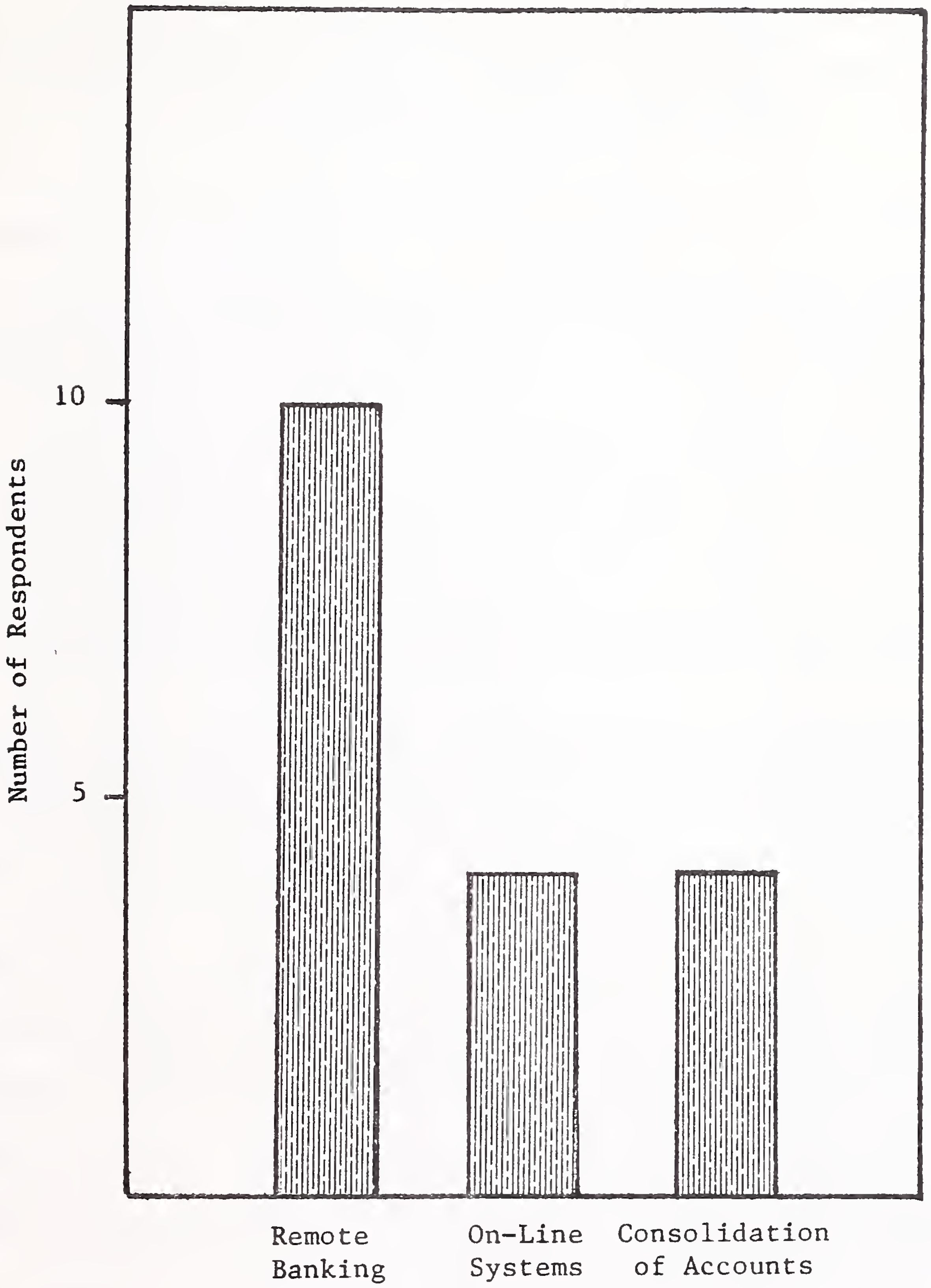


EXHIBIT 11

SENIOR EXECUTIVES VIEWS OF BANK OPERATIONS CHANGES



Senior executives in all five $1-3 billion deposit size banks emphasized remote banking.

- Some urban banks are looking to replace unprofitable branch banks with automated terminals. This will remove some of the ethnic and social pressures on banks to retain branches in the inner cities.

- Additionally, all banks are concerned about the increase in costs of "bricks and mortar" branches. Several executives expressed themselves strongly about the construction of "monuments" as branches. EFTS, but more simply, the use of off-premise electronic cash machines, will reduce the need for expansion by these means. Also, they provide for the expansion of services without increase in people costs: for example, banking hours can be extended readily using on-site ATMs.

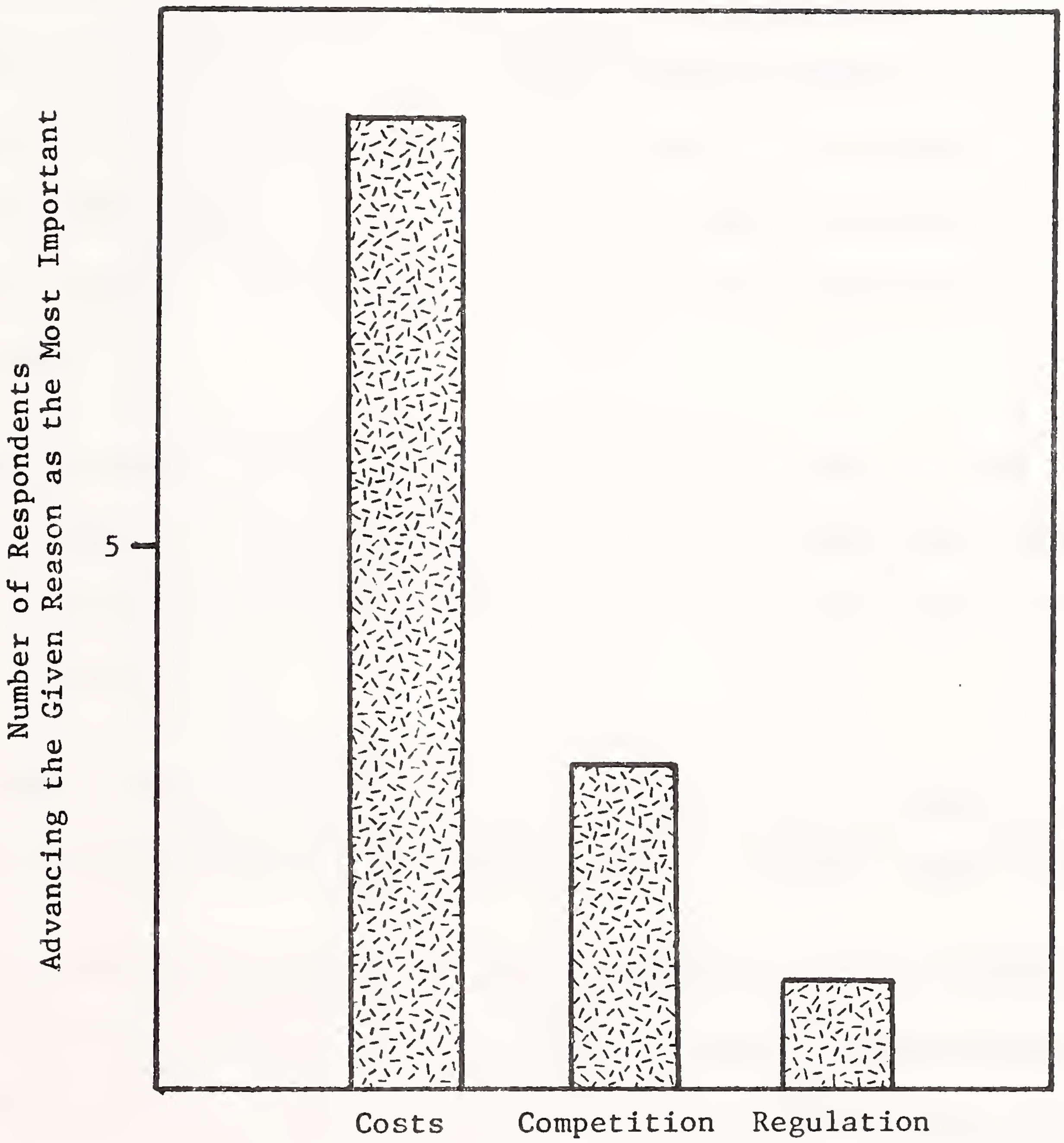
- However, the concern was again expressed by some executives on the profitability involved in replacing tellers by ATMs. One executive felt that the main advantage of ATMs was reducing lobby traffic.

- The only other significant change in operations advanced by executives was the merging of DDA and savings accounts. At the least, this was regarded as involving consolidated statements and payment of interest on checking balances. Payment for services would then be made by customers - usually executives perceive that customers will receive earnings credits on their account balances against which fees will be charged.

- The overwhelming reason for the changes in automation was given as cost, as shown in Exhibit- 12. The reasoning, therefore, is that EFTS in particular and automation in general, will result in reduced costs or,

EXHIBIT 12

PRIME REASON FOR OPERATIONAL CHANGES
PERCEIVED BY SENIOR EXECUTIVES



at least, expansion at a reduced incremental cost. As one executive put it: "On-line gives you more service at less cost". However, the Executive Vice President of a large Missouri bank pointed out that "EFTS will sometime become efficient cost-wise".

- One significant factor emerging from the research was the extent of the commitment of major banks, particularly in Pennsylvania, Washington, Missouri, and Illinois, to correspondent bank processing. Far from wanting to back off from such processing, several of the banks interviewed were extremely aggressive in their intent to market such services. As one executive stated: "Correspondent banking is the second best way to control money."

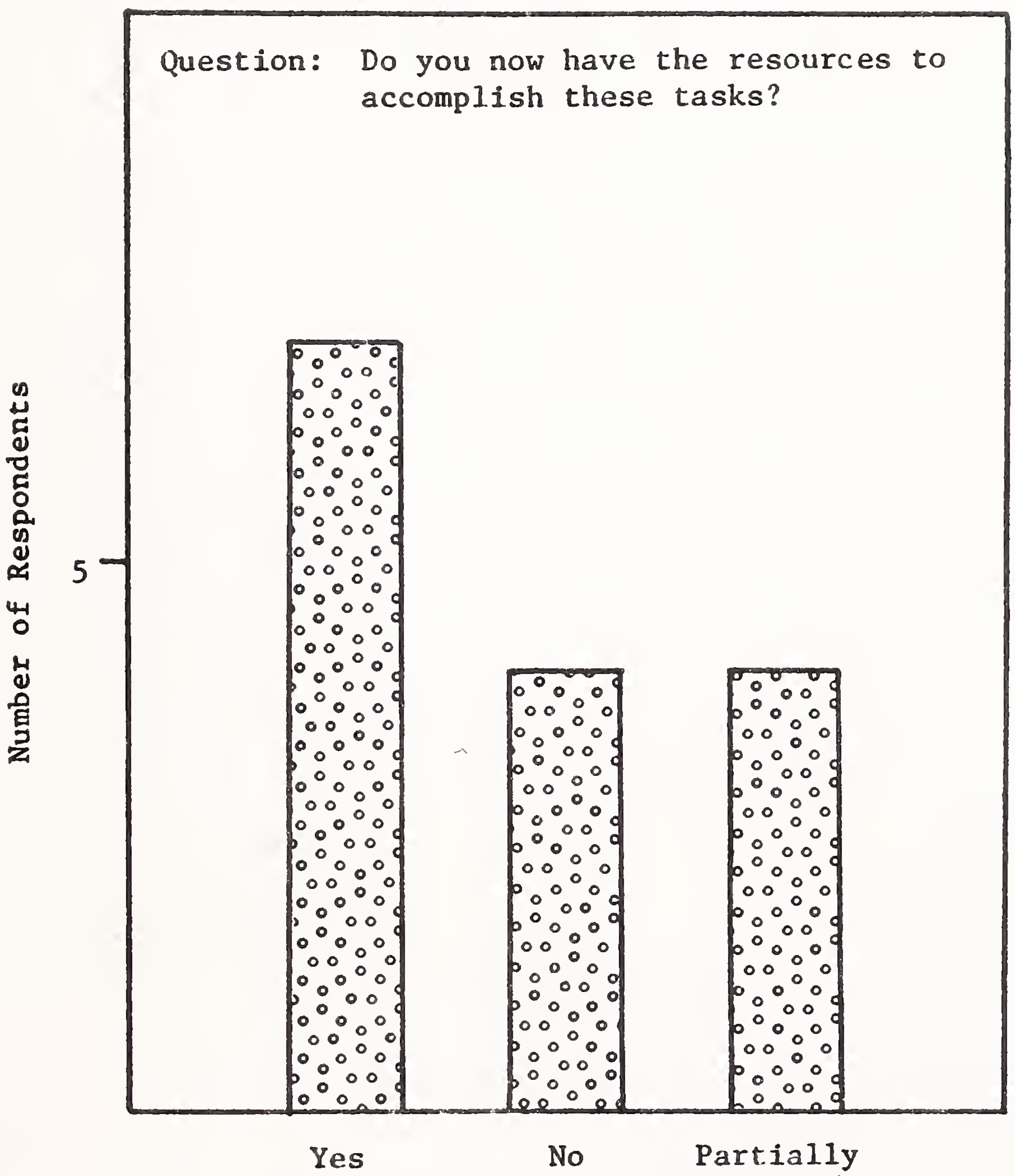
- Another executive commented that "banks were subject to the herd instinct" when it comes to changes. When one bank goes into a new area, other banks feel compelled to follow. This again appears to be true in the EFTS area.

- A final comment on EFTS, is that one small bank in Virginia considered it might bypass ATMs completely and go straight to POS terminals.

- In spite of the concerns of these executives about the costs and risks entailed with EFTS and other changes, almost half of them considered they had all the resources internally to deal with the forthcoming changes, as shown in Exhibit 13 . Of those that didn't, the resource most frequently lacking was that of people, both managers and data processing staff. Several banks specifically stated they had the capital required. Only one evinced any concern about "time" as a resource, even though many banks planned on reacting to EFTS requirements.

EXHIBIT 13

SENIOR EXECUTIVES VIEW OF THEIR RESOURCE AVAILABILITY FOR CHANGES



- Of the four banks reporting bluntly that they did not have the resources required, three of them were in the $600 million to $1 billion deposit size range. These were also banks looking to heavy consolidation of function through data processing.

2. Trust Executives

- In analyzing the ways executives will address each concern, the importance of improved computer use becomes apparent. Almost half the respondents identified this as a key way they would address the changes in store, as shown in Exhibit 14.

- The second most mentioned approach was the use of DTCs or New York clearing in order to reduce float. Since this was a prompted response, the levels of importance may be less. Three respondents mentioned the development of short term funds or pooled variable notes as a response to float concerns.

- Four respondents stated they would react to changes by getting out or reducing their effort in stock transfer.

- In terms of changes in actual operation, the prevalence of computer systems change is repeated. Particular system needs identified were as follows:

  - participant accounting package, PAP
  - computerized tax system, 2 respondents
  - cost accounting system
  - personal trust package
  - security movement and control (respondent will develop and market it)
  - will file.

- Two respondents were obtaining a minicomputer for data entry and local processing.

- In examining the driving force for each change, increasing revenue was surprisingly strong a reason, as shown in Exhibit 15.

EXHIBIT 14

WAYS IN WHICH TRUST EXECUTIVES WILL ADDRESS
MAJOR CONCERNS

	Number of Respondents
Computers/Systems	12
DTC/N.Y. Clearing	7
Reduce Stock Transfer	4
Fees	3
Develop Short Term Funds	3

EXHIBIT 15

DRIVING FORCES FOR CHANGE AS PERCEIVED BY TRUST EXECUTIVES

	Number of Respondents
Increase Revenue	21
Meet Competition	4
Regulation	2
Other/Costs	14

Of those making changes for 'other' reasons, half of them were doing so because of costs. Again the computer systems were equated with reducing costs by trust executives.

- In addressing the question of the availability of resources, a surprising number felt that they didn't have all the resources necessary, as shown in Exhibit 16. Of these 10 respondents, the following items were identified:

  - no computer system
  - no people
  - 'no commitment from bank for needed DP and marketing'
  - not as many people
  - 'have trust: would buy others'
  - computer system (use SEI)
  - 'need on-line record keeping out of trust!'
  - 'not in employee benefits'

- Of those companies stating they had the resources, at least 6 considered the bank had, but that they had a problem in getting others to assign a fair share of resources to the trust operation.

EXHIBIT 16

TRUST EXECUTIVES' VIEWS OF SUFFICIENCY OF RESOURCES AVAILABLE IN-HOUSE

	Number of Respondents
• Completely Sufficient	17
• Not Completely Sufficient	10

3. Operations Executives

- Operations executives' main concern was cost; they will address the problem mainly through new systems and by keeping up with technology. It was mentioned most frequently as being the way in which their concerns would be addressed, as shown in Exhibit 17. Planning, the development of personnel, and the use of outside services all ran substantially behind as being a solution to operations executives concerns.

- The types of new systems which will be developed are apparent in Exhibit 18. Twelve executives mentioned on-line systems as being an investment or change which would occur in their operations. Only one executive expressed the fear that considerations of privacy would change his processing methods in the next five years. His reaction was: "privacy is awful."

- Twelve out of seventeen operations executives who responded felt they either had the resources to effect these changes or that resources would be made available to them.

- The impact of competition on the development of new systems met with a mixed reaction. Six felt that competition was very important and pushed development of new systems. This resulted in placing them in a "reaction" mode and made planning difficult. On the other hand, five said they were not concerned about competition since they were either leading the field in new systems development or had too many problems with existing systems to be concerned about what others would be doing.

EXHIBIT 17

WAYS IN WHICH OPERATIONS EXECUTIVES WILL ADDRESS THEIR CONCERNS

Change	Mentions
New Systems/New Technology	11
Planning	3
Develop People	3
Use Outside Services	3
Other	10

EXHIBIT 18

CHANGES IN PROCESSING METHODS IN OPERATIONS

Change	Mentions
On-Line Systems	12
Consolidation	4
Hierarchical Banking	2
New Services	3

- The impact of technology in the EDP functions also failed to generate concensus among operations executives. A few felt there would be improved price-performance resulting in lower unit costs. Whereas others anticipated more sophisticated equipment and increased cost. One saw the possibility of centralization through improved communications technology, but two thought decentralization would be possible by using minicomputers. Only one saw the possibility of a "computer utility."

- Significantly, the banks which felt they were leaders and did not have to respond to competition also felt technology would save them money. Those who were reacting to competition felt new technology was more costly.

- EDP costs averaged $6 million per year in eight IBM installations which reported. These costs were projected to increase by 26% by 1978 for an average of $7.6 million per year, as shown in Exhibit 19. There is wide variation in the cost of data processing related to deposits. The annual cost varying from $140,000 per $100 million in deposits to over $1 million per year for each $100 million in deposits. Significantly, the three highest figures were associated with the three smallest banks, which had deposits under $300 million.

EXHIBIT 19

EDP DEPARTMENT CHARACTERISTICS

Configuration*				Budget ($ Millions)			Annual EDP Cost Per $100 Million in Deposits
No.	Model	No.	Change	1976	1978	% Increase	($ Thousands)
2	155			4.0	4.5	13	300
2	155	3	155	4.8	6.0	33	300
2	158			4.5	5.6	24	600
2	155	2	158	10.5	12.8	22	500
2	145	2	155 (DAT)	6.8	8.6	26	900
2 2	Burroughs B 4700 158			6.2	7.2	16	140
1	155 (DAT)	2	155 (DAT)	5.4	8.6	59	1,300
1 1 1	145 155 158			6.6	7.6	15	500
Average				6.0	7.6	26	

* IBM System /370 unless otherwise noted.

C. SERVICES USED BY BANKS

1. Senior Executives

- As shown in Exhibit 20, almost half the respondents reported their bank using some kind of outside data processing service. These were made up as follows:

  - Credit card processing by banks, 2 respondents
  - Standard computer services (DDA, Loans, etc.), 1 respondent
  - Trust services (Bradford and SEI) 3 respondents
  - Payroll and other services from ADP, 2 respondents

- In addition, three senior executives' banks were using remote services, the largest of which, a very large bank in Ohio, was spending $150,000 per year.

- A noteworthy point, is the degree to which senior executives in banks of all sizes were familiar with data processing. Ten of the senior executives specifically mentioned a data processing product or service with some degree of familiarity. In addition, none of the executives complained of not understanding the area, or stated it was someone else's concern. Senior bank executives thus appear to be far more aware of data processing, its problems and potential than hitherto experienced.

- Senior executives identified a few areas where services could be performed for their banks, as shown in Exhibit 21. Four of the respondents particularly identified the possibilities of an outside service performing part or all of their computer processing, and another

EXHIBIT 20

SERVICES USED BY THEIR BANKS -
SENIOR EXECUTIVES REPORTS

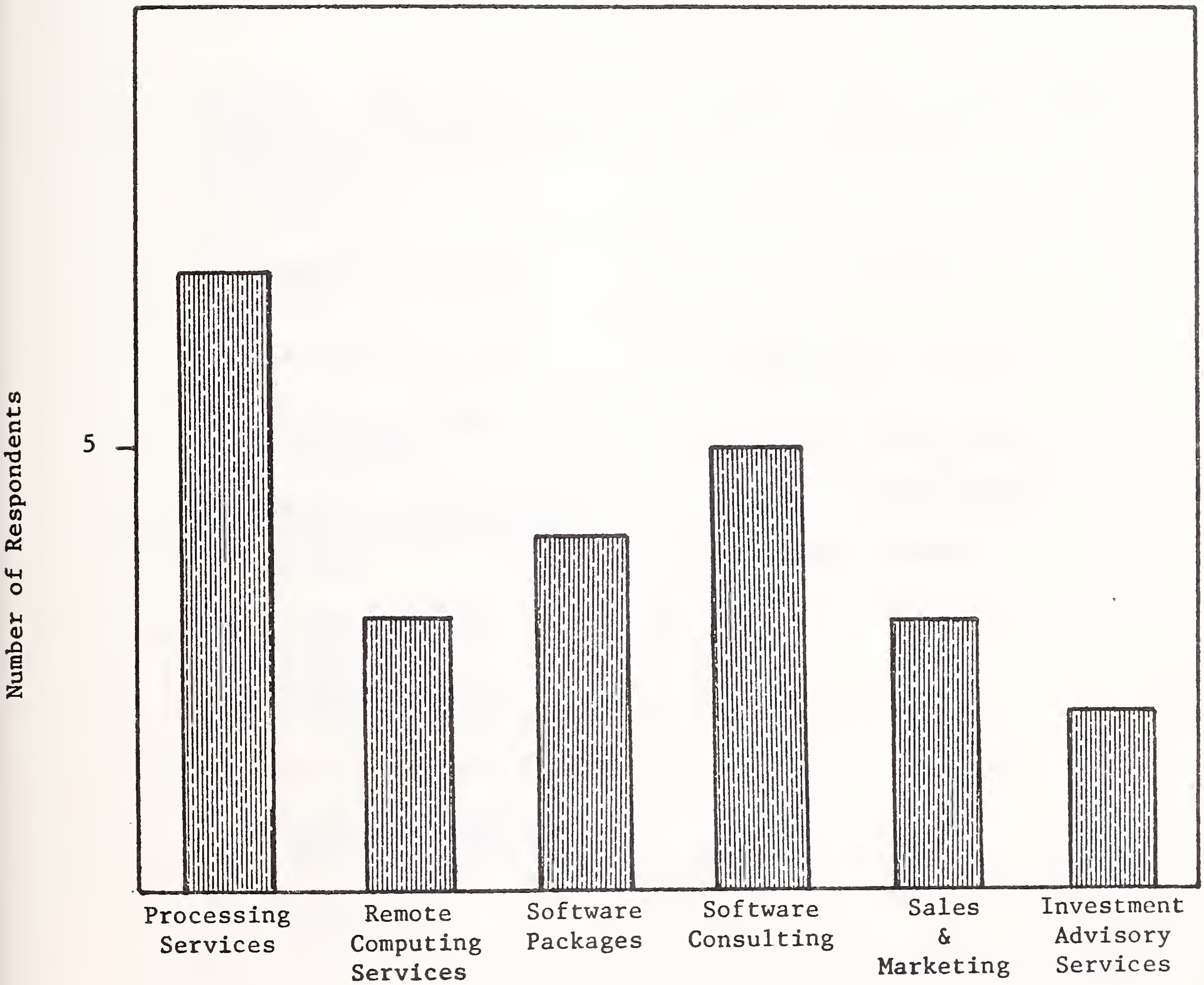


EXHIBIT 21

SENIOR EXECUTIVES VIEW OF POSSIBLE SERVICES USE

Question: Which tasks do you think could be accomplished by an outside service organization?	Question: What would you like to see a service organization offer to your bank?
• Computer processing marketing research • Evaluation services • Payroll-possibly to ADP DDA package • Computer hardware/operations-possibly more in future. • Personnel plans Trust services Accounting Stocks and bonds reviews • Part of processing • Consulting, particularly conversion DOS to OS • COM payroll	• Trust processing • Modelling, looking at processing • Terminal /network set-up • Cost accounting system • Mortgage services

bank would have liked to see a terminal/network offering.

- As shown in Exhibit 22 slightly more respondents were positive to the use of outside services than were opposed to it. There is an expected correlation between positive attitudes to services and a non-banking background. There were, also, many qualifying comments as to the use of outside services. For example, the President of a $670 million bank stated they needed an extremely good proposal with a good cost analysis, although cost itself would be a subsidiary condition. The Chairman of the Board of a $1.3 billion bank was positive to using services and might be more in the future: people costs are the key! However, the Senior Vice President of a $900 million holding company "heavily favored in-house".

- Exhibit 23 shows the receptivity of senior executives to consideration of a management contract for all or part of their banks operation. Most executives would not consider it and some were very emphatic. Reasons given for not considering it were varied:

  - " We know better than outsiders; I feel very strongly about it." (Vice-Chairman of a $900 million bank)
  - "Economics wouldn't justify it" (Senior Vice President of $900 million holding company)
  - "Made management decisions to be masters of our own destiny" (Executive Vice President of a $200 million bank)
  - "Emotional decision" (Executive Vice President of $600 million bank)

EXHIBIT 22

ATTITUDES OF SENIOR BANK EXECUTIVES
TO USING OUTSIDE BANK SERVICE ORGANIZATIONS

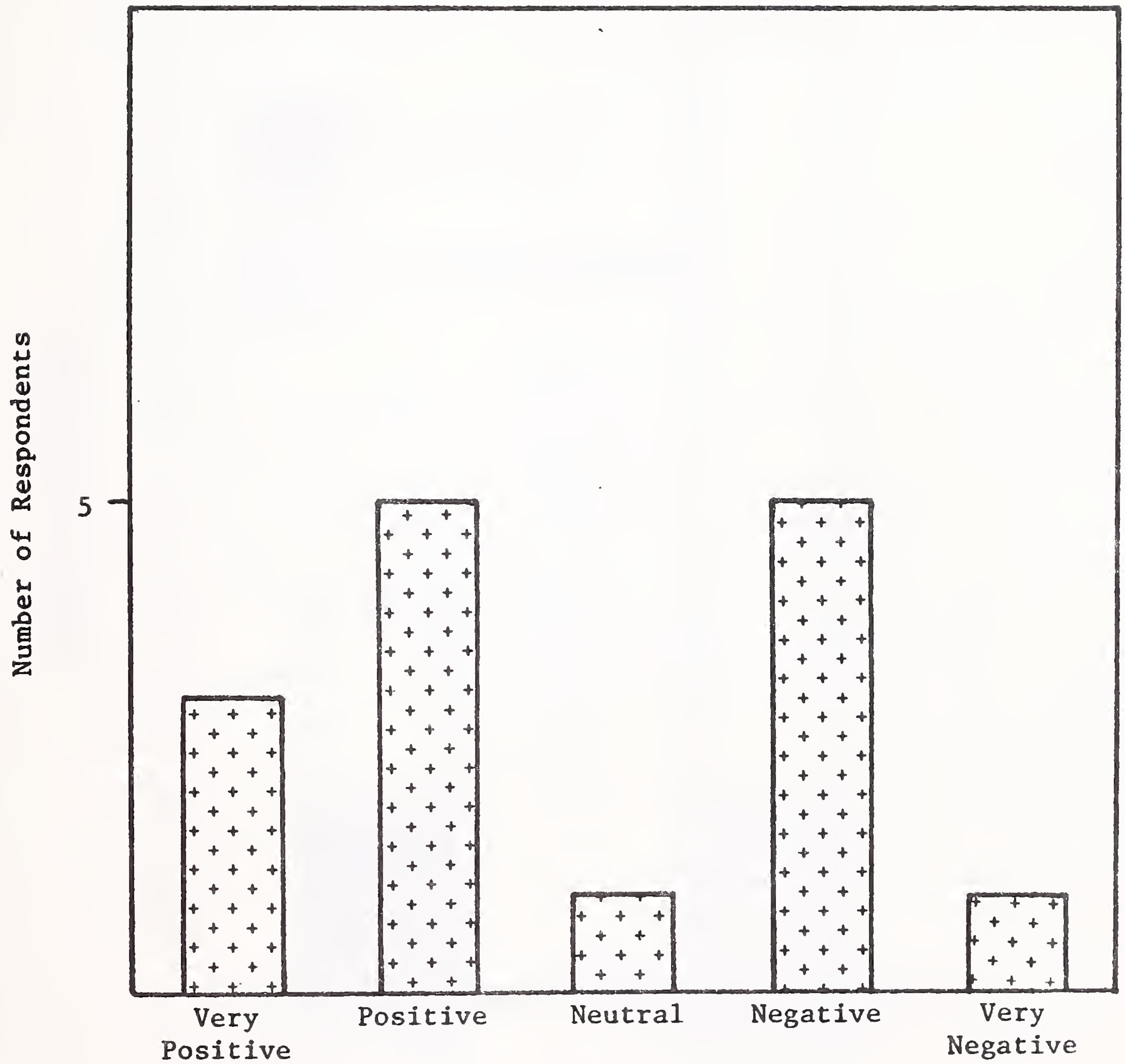
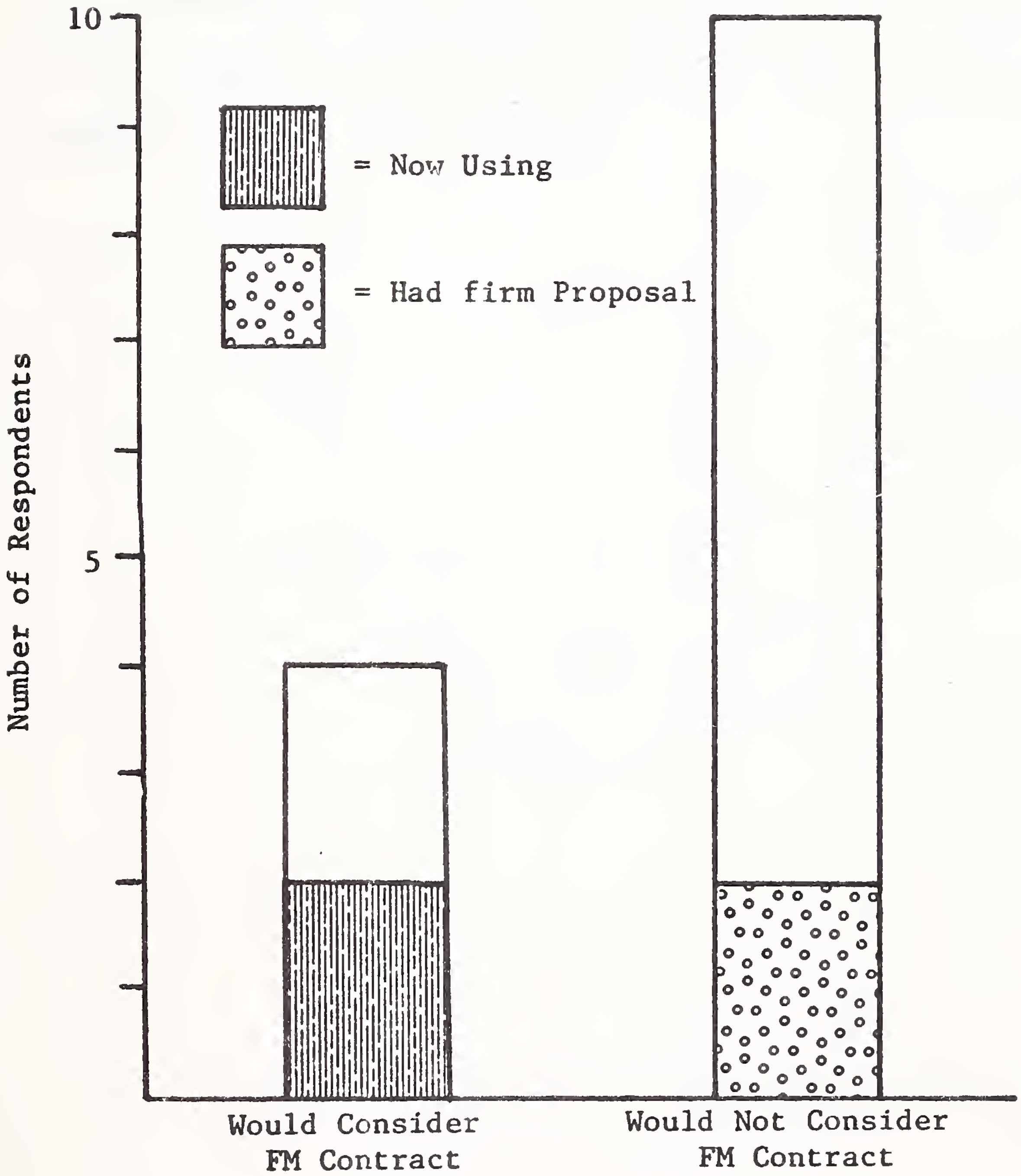


EXHIBIT 23

SENIOR EXECUTIVES RECEPTIVITY TO FACILITIES MANAGEMENT



- "Only consider FM if things are really bad internally" (Senior Vice President of $900 million bank)
- "Keep control of operations" (Executive Vice President of $1.5 billion bank)

- The two companies that had had a firm proposal (both from EDS) had rejected it because one had "lower internal costs" and the other felt it could do a better job internally.

2. Trust Executives

- Only one trust executive flatly stated 'none' when asked 'What parts of trust operation support would he be willing to have performed outside?

- As shown in Exhibit 24 pricing and data base systems were most frequently mentioned as specific services being used or usable. Computer processing, accounting, stock transfer, and personal trust when grouped together actually were the highest in frequency of mention. Altogether, over half the respondents would consider outside processing for their main record keeping in at least corporate trust or personal trust.

- Participant record keeping or employee benefit accounting was also mentioned frequently. In this area, no one vendor has a significant position.

- Other areas identified were:
    - investment information, 4 respondents
    - estate planning
    - common trust funds
    - cost allocation
    - marketing
    - consulting
    - general timesharing

- In looking at what services trust executives would like to see offered, there was again considerable variety.

Performance measurement, evaluation and investment review services, as a group, were most frequently mentioned. This may be because of the increased competition and the new emphasis on performance in trust activities.

EXHIBIT 24

OPERATIONS SUPPORT AREAS WHERE TRUST EXECUTIVES WOULD CONSIDER SERVICES

	Number of Respondents
• Any	5
• Pricing/Data Base	10
• Processing	12
- Personal Trust (4)	
- Corporate Trust (4)	
- Computer Processing (2)	
- Accounting (2)	
• Performance Measurement/Evaluation	6

- Marketing services, including market research was an area which several executives agreed on. Otherwise services identified included:
  - participant record keeping
  - pricing of municipal bonds
  - stock transfer
  - risk analysis system
  - tax return
  - measurement of research results
  - will file
  - cost allocation system
  - system to reduce paper.
- In this question, executives were often identifying services that had not yet been offered to them rather than any that they would consider.
- Very few trust executives were negative on use of outside services as shown in Exhibit 25 . This is probably because all trust departments use some outside services and many spend considerable sums for various types of investment and accounting services - these executives are used to dealing with service organizations. Even those that are negative will use advisory services.
- Use of facilities management received quite strong support from trust executives as shown in Exhibit 26 . However, several trust executives stated that although they may favor it the decision was outside their control. It would be either in the holding company or operations committee of the bank.
- The most acceptable facilities management area is that of corporate trust, particularly stock transfer. All those executives that would consider parts of their activities for FM and several of those that

EXHIBIT 25

TRUST EXECUTIVES ATTITUDE TO USING OUTSIDE SERVICE ORGANIZATIONS

	Number of Respondents
• Positive	16
• Neutral	7
• Negative	5

EXHIBIT 26

ATTITUDES OF TRUST EXECUTIVES TO THE USE OF FACILITIES MANAGEMENT

	Number of Respondents
• Would consider for all	14
• Would consider parts	6
• Would not consider	8

would not consider it, indicated that this was the most separable area.

- Reasons advanced for considering FM included:
  - cost/profitability
  - on-line capability
  - more priority with service than in-house data processing
  - lack of internal technical expertise
- However, restrictions placed on a vendor included:
  - local processing
  - established systems
  - commitment to updating systems
- One large Ohio bank mentioned they would prefer a local consortium of banks getting together to set-up a service and then hiring an outside company as the manager of the service.
- Almost half the executives who would not consider FM had received a firm proposal in the past. One of them did not contract because they could not resolve details. Other reasons advanced for not contracting were primarily related to cost; including:
  - cheaper in-house (sunk cost of computer)
  - timing bad
  - duplication of effort
  - costs high

3. Operations Executives

- Almost half the operations executives contacted, reported using consulting/programming support and remote computing services as shown in Exhibit 27 . Remote computing services vendors were being used in a variety of ways:

  - SBC for accounts payable
  - TSO from an insurance company
  - GE and CSC for general timesharing

- Other processing services were being used in different support areas in the respondents' banks:

  - mortgage processing (CPI)
  - credit card processing
  - correspondent banking (Leader)
  - facilties management (UCC)

- Respondents generally had a preference for using support services as opposed to overall processing services. One area in which they were particularly receptive to the use of outside services was in that of network communications/EFTS 'switch', as shown in Exhibit III-33.

- Although almost equally favored on first sight towards processing services, on closer examination this is seen to be distributed over several different areas in banks:

  - facilities management
  - correspondent banking
  - corporate trust
  - DDA
  - payroll (ADP)
  - other

EXHIBIT 27

OPERATIONS EXECUTIVES REPORTED
USE OF OUTSIDE SERVICES

Use Outside Services	Mentions
Consulting/Programming	7
Remote Computing Services	7
Correspondent banking/FM	2
Other data processing	3
Mortgage Processing	2
Credit Card	2
ACH	2
Other	7

EXHIBIT 28

AREAS IN WHICH OUTSIDE
SERVICES COULD BE USED

Area	Mentions
Networks/Switch	6
Processing	6
None	4
Other	3

- When asked what they would like to see vendors offer to them about a third of the respondents replied 'nothing', a fairly strong negative, rather than 'I can't think of anything' or some similar inocuous phrase.

- Several banks, however, would be attracted by an EFTS/switch offer. An executive of a $700 million bank stated that, 'If someone came with a well-conceived POS service it would be very attractive'. Two banks would also like to see a 'total' service offered. Other services wanted were 'programming help' and a 'sophisticated proof-of-deposit' system.

- In looking at outside services, over a third of operations executives stated they would consider facilities management.

Of those that wouldn't consider it, six had had a firm proposal in the area although some of them were up to six years old. Reasons for not accepting it included:

  - costs, 2 respondents
  - 'they left, too vague a proposal'
  - 'too integral a function to contract'
  - 'did not want customers' private records turned over to private firm

- As one executive said, 'It looks a fantastic deal on paper'.

Any consideration of FM would be done for all processing - it is difficult to split parts out and then have to reunify outputs. However, the trust department did not appear to receive heavy consideration from these executives so that they may not have considered separating that part from the main processing.

D. BANK EXECUTIVES VIEWS ON FACTORS AFFECTING SELECTION OF OUTSIDE SERVICES ORGANIZATIONS

1. Senior Executives

- Even more important than financial stability, a proven track record was identified as a mandatory requirement by half of the senior executives interviewed. However, some did say that they would pioneer under certain circumstances, as shown in Exhibit 29.

- Senior executives were basically concerned about the ability of the vendor to get the job done now, although several mentioned the need to be assured of continued development and support.

- Desirable characteristics mentioned included innovative capability, flexibility, and local presence (three respondents). In addition, another respondent identified the "Boy Scout Oath" as desirable.

- Few bank executives had strong preferences for dealing with another bank or an independent company. However, there was some indication of a preference for dealing with an independent company as shown in Exhibit 30 and also a marked preference for paying for services by fee.

- The decision process at this level was ill-defined. For decisions, four respondents identified committees, two gave the parent company, and four gave a "top manager", as the responsible authority. However, there was much variation as to the type of service, since many minor services can be bought at the line level, while some are so major that the decision may go to the executive committee of the board.

- Nowhere was a "top-down" decision process in evidence - it was always

EXHIBIT 29

SENIOR EXECUTIVES REQUIREMENTS OF SERVICE COMPANIES

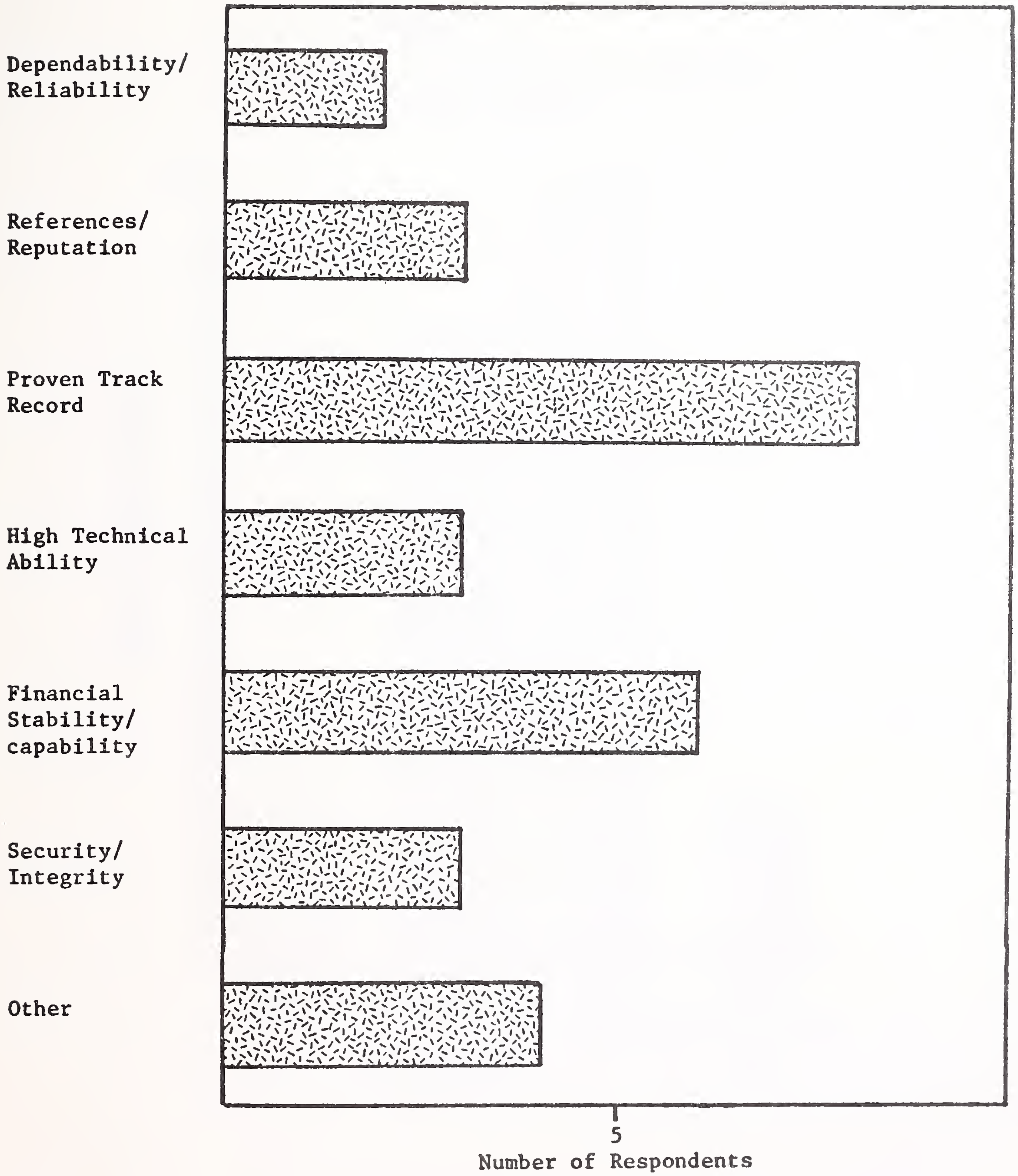
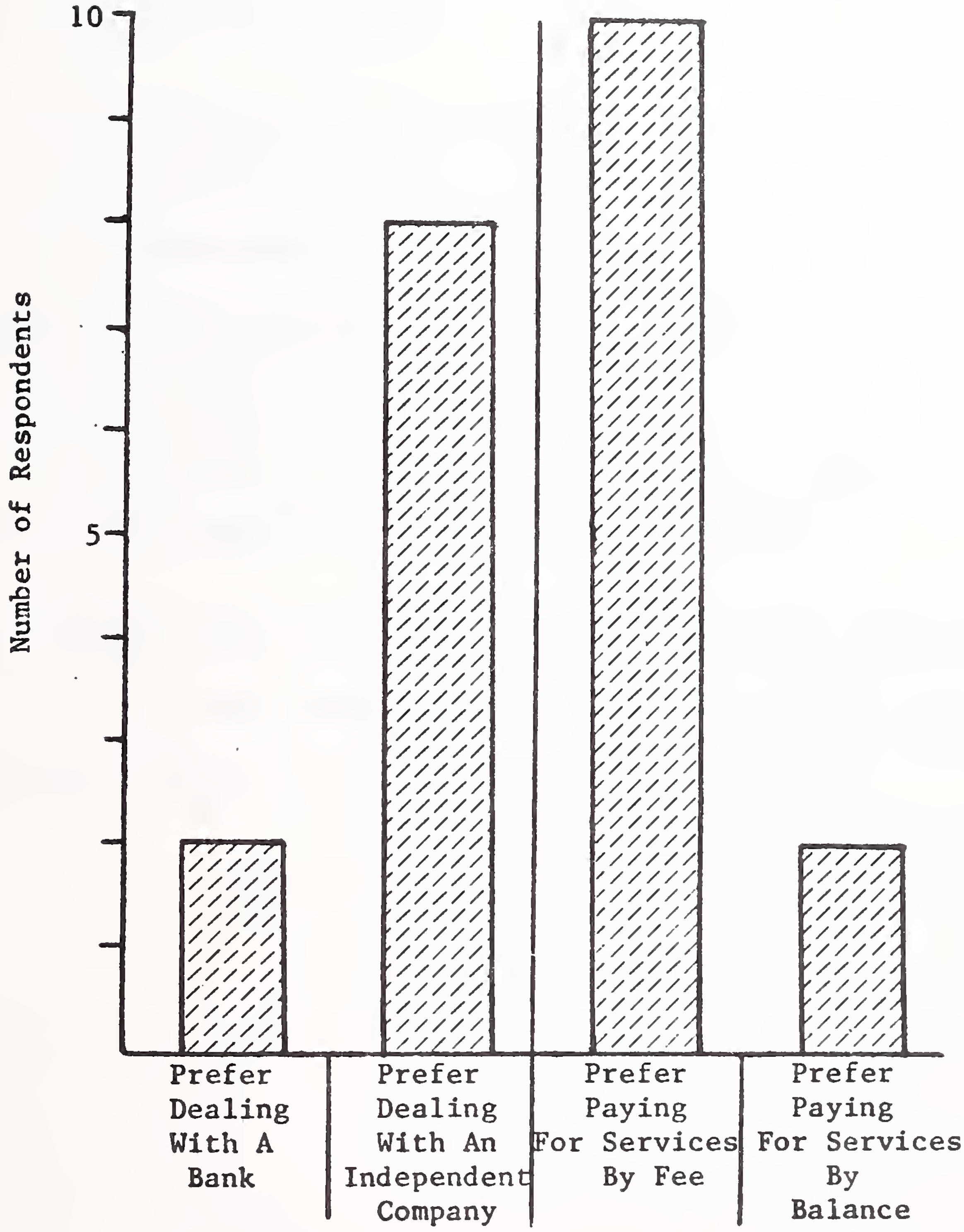


EXHIBIT 30

SENIOR EXECUTIVES PREFERENCES IN PURCHASING OUTSIDE SERVICES



"bottom-up" and there seemed to be an over-reliance on committees. Although several banks appear to be moving away from their use; one bank executive in particular mentioned having as few committees as possible involved in the process.

- Internal sources would provide most of the information for the decision and selection process, with half the respondents stating they would only use these sources. Relatively few banks would use independent consultants or their accounting companies. There was more receptivity to industry sources, in particular to the use of other banks, either correspondents, large banks, or banking "friends". Other sources included vendors and specifically competitors of the vendor considered.

- Specifically when asked about information sources, half the respondents referred to other banks while only four identified the ABA as a source. No one source was dominant.

2. Trust Executives

- Characteristics of outside services organizations which are mandatory in the view of trust executives are, in order of priority:

   1) Professional knowledge and expertise in banking and technical areas.

   2) Dependability and reliability

   3) Proven track record with strong reputation and proven experience.

   4) Financial stability and integrity.

All the above were very close in magnitude of response.

- Other characteristics mentioned frequently again referred to people and reliability, including:

   - 'Keep up with what's happening'

   - 'Promptness'

   - 'Training capability'

   - 'Confidentiality'

- Noteworthy was that security was not mentioned except in a couple of comments on confidentiality and integrity. Cost, also, was only mentioned twice.

- Trust executives prefer to deal with banks by a slight margin over bank-oriented services companies. These service companies actually were preferred to captive bank affiliates, as shown in Exhibit 31. Many executives, however, stated that they had little preference for a particular type of company: their choice would be made on other factors. Nevertheless, perceived specialization has a distinct advantage over diversification.

EXHIBIT 31

EXECUTIVES' PREFERENCES ON TYPE OF SERVICE ORGANIZATION

Organization	Rank	Rating*
Money Bank Correspondent	1	7.2
Captive Bank Affiliate	3	6.2
Large Diversified Firm	6	4.6
Small Applications Specialist	3	6.2
Independent Diversified Service Company	5	5.4
Independent Bank-Oriented Service Company	2	6.6

* Based on approximately 20 responses

- In terms of making a decision on outside services, only a third of the respondents mentioned a specific individual. Usually, this was the President or CEO, or the head of the department in some of the larger trust departments. Most respondents used a committee approach either on an ad hoc or a regular basis.

- Committees mentioned fell into three categories:
  - management committee
  - operations committee
  - trust committee

Those banks operating with a trust committee usually had operations separated from bank operations. This is a fairly clean line for making major EDP-related decisions.

- Those banks using an ad hoc or established operations committee involving EDP are probably poor candidates for FM because of the continued involvement of the DP department in the discussion and selection process.

- In the decision and selection process, executives would use primarily internal sources. About half the banks relying on internal sources would involve the EDP department of the bank as a matter of course; the others would bring them in, if required, primarily to evaluate software. Thus, trust departments do have quite an amount of control over their selection process. However, when recommendations go outside the trust department, EDP tends to become involved.

- ABA trust group received some mention as a source of information in the decision process. Several references to it were negative.

- The other major source of information in the decision process is, again, 'other banks.' Most of these are informal contacts, but there are several groups such as 'Round Robin' and 'Exchanger' which exist to share information among like banks.

- As a source of information on the availability of services, the ABA trust department was most frequently mentioned

  Primarily its publications were used, such as the software directory

- Generally, however, there appears to be no central source that trust executives turn to. Perhaps as a result of this Ohio departments are building their own directory.

- Executives were positive about the need for services in the trust market, only two negative comments were made, one by an executive who said he 'felt sorry' for vendors. This executive had tried to sell his bank's highly complex, personal trust system and had not succeeded.

3. Operations Executives

- In examining the factors used by operations executives in purchasing and selecting outside services, reliability emerges as the most important factor, as shown in Exhibit 32 . Security and flexibility were also ranked highly although security was rarely volunteered as a factor.

- Cost achieves a very low rating compared to its importance as a volunteered factor. When asked to suggest the factors they would consider, cost was mentioned almost as many times as all other factors put together. It is, therefore, a consideration that must be addressed, but is not so important that selection is based primarily on cost of the service. What is important is the overall cost impact on the bank's operations.

EXHIBIT 32

FACTORS USED BY OPERATIONS EXECUTIVES AFFECTING THE PURCHASE OF OUTSIDE SERVICES

Factor	Rank	Rating*
Cost	7	7.1
Security	2	8.5
Flexibility	3	8.4
Reliability	1	9.3
Keeping Up with Competition	8	6.8
Financial Stability	6	7.4
Recommendations and References	9	5.9
Implementation of Proven Products	5	7.7
Availability of Qualified People	4	7.8

* Based on 13 responses