July 2020

Bank Strategy Briefing

Ideas and analysis for community bank executives

When online applications become your first choice

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For the last several years, customer preferences have been decidedly moving toward electronic product delivery and away from traditional branch offices. In the wake of the 2019 novel coronavirus (COVID-19) pandemic, this trend is accelerating. Many banks are heavily leaning on their self-service digital channels to support deposit and loan growth strategies. What was once the alternative is becoming the frontline of a bank's sales efforts.

The following are common challenges online application projects may pose and strategies to overcome them:

- **Scoping the project:** If you are seeking a new platform, understanding project scope is critical. Some vendors offer a stripped-down, out of the box solution that lacks key functionality, while requiring additional professional services to develop customizations. Those solutions, especially those requiring customization work, can lead to delays due to misunderstandings or errors identified in user acceptance testing. The result can be project costs exceeding initial pricing estimates, conflict with your vendor and a major distraction for your bank. Upfront diligence and clear contractual terms can head off a number of these issues. Vendor demos can help you understand what customers will see, and getting references from industry peers can help you understand the benefits and challenges of the platform you are considering.
- **Displaying legal documents and disclosures:** In addition to the documents typical of the paper world, new banking customers will need to give numerous consents to conduct business electronically and be contacted throughout the application process. Presenting legal documentation can disrupt the user experience and contribute to customer drop-off. Numerous banks have managed this issue with customer-friendly guidance for completing the application, spreading information and legal documents through multiple application pages, and training sales and customer service staff to guide customers through the application process.
- **Enforceability of electronic signatures:** In general, electronic signatures are enforceable if executed properly. That said, the consequences for relying on an improperly executed electronic document can be dire, particularly in the case of a borrower default. Therefore, we recommend the using a well-recognized electronic signature solution and a thorough legal review of the signing ceremony and record retention procedures. Because of the enforceability risks, the Federal Home Loan Bank of Chicago and the Federal Reserve Bank of Chicago currently do not accept some electronically signed documents for loans as collateral for advances. Additionally, to the extent a bank wishes to sell a loan portfolio or deposit accounts in the future, buyers may expect certain documents to feature wet ink signatures.
- **Monitoring performance:** A number of digital banking platforms have experienced slower performance due to high online traffic taxing servers and networks during the COVID-19 pandemic. Banks should ask their vendors to provide hard data on CPU usage and response times, information about planned capital investments in additional server and network capacity, and service level agreements beyond making the platform available to their customers.

When implemented properly, online account applications can supplement a bank's customer growth strategies as in-person interactions diminish.