

Slipping Into Obsolescence

by [Steve Brown](#)

We work to keep up with product innovation as it is an important part of our communication with our community bank readers, but one new idea almost slipped by. We suppose that was because it was not electronic, but it is quite interesting. There is a substance called LiquiGlide that will be coming out this summer. It is designed to make viscous liquids like ketchup not stick to the bottle and out slide easily when tipped. We think it sounds like a great idea, but we also wonder what is in this product. How awesome to no longer have to bang on the bottom of the Ketchup bottle, only to see a glob of it fly across the table onto Aunt Rita's face when too much enthusiasm is applied. Family dinners with condiments served will now be a much more orderly affair. This new technology gives us an image of an entire bottle of ketchup sliding onto a hamburger in one big plop. It just goes to show you that just when you think the only real new ideas in the world are electronic, along comes something else.

If ketchup bottling can make such leaps and bounds into the future, there must be plenty in banking that can do so as well. Certainly to some, banking may seem lodged in the Neolithic, but does that tell the whole story?

Consider the recent compromise of data on an enormous scale at Target and Neiman Marcus. This act has pushed the weaknesses of the U.S. credit card system into the bright light. We expect this attack has the NSA and other government agency wheels turning, so look forward to reading soon about some group of bad guys in some dark hole also seeing a light shined on them on a global scale.

As if these issues weren't enough right now, bankers also know the vast majority of the nation's ATMS are about to become obsolete. The scale of fixing the problem is significant and it involves Windows XP, the venerable 12Y old Microsoft operating system. XP will no longer be supported by Microsoft starting on April 8 of this year, so bankers and vendors are moving to fix this issue. Given all the technological innovation that has occurred in banking in the last 5Ys, it's a bit of a shock to realize that 95% of bank ATMs in the U.S. use Windows XP. For a sense of scale there are roughly 420,000 ATMs in this country.

It is interesting to note that ATM technology itself is 40Ys old. There are also vast differences in machines around the country that run the gamut from basic designs and capabilities to full video delivery. Big bank systems are usually connected by large networks so they can more easily be upgraded to Windows 7. There are also many older machines out there, however (often at community banks) and those will have to be upgraded individually or the machines replaced altogether.

One ATM software CEO estimated that only 15% of ATMs in the U.S. are likely to meet the April deadline. Software patches are not issued more than once a quarter for older operating systems, so the problem may not be immediate, but it will grow. Some big players like Wells and JP Morgan are even buying custom support agreements from Microsoft in order to have enough time to replace old machines and upgrade others.

The good news for banks and customers is that even if ATMs are not upgraded, they will continue to function, according to an expert at Diebold. They will be more susceptible to malware however, so the

risk is increased and they are also likely to become targets of fraudsters as weaknesses become apparent.

Given the recent fraud with credit and debit cards and the impending 2015 deadline to move to systems compatible with micro-chips, some large banks are looking at the timing of the Windows upgrade to take care of both tasks. Moving U.S. credit cards to the chip and pin system will be a big job, so like any big multistep task, an incremental approach (like upgrading ATMs now) may make more sense. Finally, if your bank is considering video teller kiosks or other fancy upgrades, this may be the perfect opportunity to advance your technology and customer delivery systems even further into the future.

BANK NEWS

M&A

North Shore Bank, a Co-operative Bank (\$474mm, MA) will acquire Saugusbank, a Co-operative Bank (\$208mm, MA) for an undisclosed sum.

Sold

Zions Bancorporation (\$54.4B, UT) said it sold 35 collateralized debt obligation (CDO) securities with a total par value of \$631mm for a gain of \$65mm. Zions had written the CDOs down by 55% to \$282mm and sold them to avoid issues related to the Volcker rule.

Marijuana Banking

FinCEN said banks can do business with marijuana-related businesses but are responsible for conducting their own due diligence, making sure the business is operating legally and making sure the businesses not violating any DOJ rules or requirements. Banks would still have to file three different types of SARs, however and could face fines if AML laws are not followed. Given all of the risks, it is expected many banks will still determine it does not make sense to do business with such businesses.

Layoffs

Bank of America said it will cut 450 mortgage jobs due to slower demand.

Slower Growth

A group of Wall Street economists has adjusted their expectations for 1Q GDP growth down from 2.5% to 2.2% due to the impact of harsh winter weather.

Job Security

A survey of employees by Yast.com finds 70% of employees who feel their jobs are secure are happy at work; 65% of employees say job security is "very important" to their satisfaction levels, followed by benefits (64%), recognition (62%) and relationship with supervisor (61%).

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