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# Success in the Balance

THE ESSENTIAL GUIDE TO  
FINANCIAL METRICS

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# Success in the Balance

## THE ESSENTIAL GUIDE TO FINANCIAL METRICS

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# Foreword

by **JASON PALMER**, Vice President of Marketing, WebTrends Inc.

Marketing analytics give financial institutions a competitive edge—and customer loyalty you can bank on



The financial services industry is constantly changing. Technology is evolving rapidly, and the rate of consumer adoption is growing every day. Customers are demanding increased self-service options from their financial institutions, as well as the ability to comparison shop for mortgage rate, investment options, and insurance coverage. Increasing competition, eroding margins and fewer sources of new revenue means financial institutions must optimize every marketing dollar spent to grow revenue and increase profits.

In order to remain competitive in this changing world, financial organizations need to leverage their online offerings to their fullest potential, and develop meaningful and profitable one-to-one relationships with their customers through Marketing Performance Management (MPM).

### **The Bottom Line: Leverage the Web**

The web can help organizations make smart decisions about marketing and customer service. A powerful web analytics solution can help organizations make better decisions by providing the business intelligence necessary to build long-lasting and profitable relationships with their customer base. More precise targeting helps

financial institutions differentiate themselves from the competition and increase customer satisfaction.

Whether you're in banking, brokerage, or insurance, success requires in-depth insight in order to pinpoint the optimum blend of risk and return. For example, tracking unique visitors, not just visits, is vital. Unique visitor reporting, the core tenant of relationship marketing, provides more accuracy, and integrity of analysis is critical for taking decisive action with confidence in your numbers.

In addition, the privacy-conscious financial market needs to be cognizant of the growing number of consumers blocking third-party cookies. Banks and other financial institutions need the broadest and most secure first-party cookie support and data collection methods completely independent of the use of cookies for the most accurate solution possible.

### **Adding Up ROI**

At WebTrends, we understand the unique challenges and opportunities online marketing and web initiatives can provide financial organizations. Over 70 percent of the top 25\* U.S. financial services firms use WebTrends web analytics to analyze their online initiatives, from measuring the return on investment of online customer service sites to growing online bank accounts, increasing cross-selling and improving the effectiveness of company portals.

### **Web analytics can also help financial institutions answer their most pressing business questions, including:**

- What is the most effective channel for acquiring new customers?
- How can you improve your online self-service tools for customers, saving money and improving customer satisfaction at the same time?

- What products and services are existing customers searching for on your site?
- How do you make it easier for customers to find information and complete transactions?
- How effective is your organization at retaining your online customer base and keeping them engaged?
- What are your most effective cross-selling tactics?

As you're reading through this guide, consider your organization's use of web analytics. Do you use analytics to enable a continuous process of improving your results? Are you using search engine marketing efficiently? Doing so can have a dramatic impact on your bottom line.

### **Enjoy the Guide**

WebTrends is proud to present the *Success in the Balance* guide with our sponsor, *DIRECT Magazine*, and we share in their mission to help numerous industries, including financial organizations, better compete and prosper in their marketplaces. We've reached out to partners and experts across the industry and combed through the rich archives on *DIRECT Magazine* to pull together these timeless articles and insights from respected authors.

*\* Top 25 ranking of financial services firms based on revenues, Insurance Information Institute, 2005. The Top 25 list can be found at <http://www.financialservicesfacts.org/financial2/today/leadingcos/>*

# The Money's on the Web...

...And web analytics is helping some banks get their share

by **RICHARD H. LEVEY**, *DIRECT* MAGAZINE

May 2006



The notorious criminal Willie Sutton once was asked why he robbed banks. “Because that’s where the money is,” he replied.

Welcome to the 21st century, Willie. These days more and more of the money is online, and banks are embracing web analytics to secure their share of it.

### **At the Top**

Top-tier banks in the online space, such as Bank of America and Wells Fargo, are ahead of the curve in analytics use, according to Vipin Mayar, executive vice president, North America and general manager for data analytics at direct marketing agency MRM Worldwide. When they innovate, the rest of the industry follows their lead.

For instance, web analytics demonstrated how powerful online bill paying is. Yes, this service has been around for a while. But when banks realized how “sticky” it was, they began to give the service away as a loss leader.

“Once customers have online bill pay, the likelihood of them transferring to another bank drops to nearly zero,” says Maria Herlihy, senior vice president of strategic consulting and analytics for KnowledgeBase Marketing.

Bank data is shot through with kernels of knowledge like this, notes Mary Sams, vice president and principal of Audience Identification Inc., a DM firm that specializes in analytics for the financial services and publishing industries. But relatively few banks are taking full advantage of this information.

“I think there is a great opportunity for banks to use web analytics to understand what customers want and need, more than they’ve done,” Sams says. But, she adds, the barriers most financial institutions face are “technology and math.”

“[Banks] have so much more data than any other industry we work with, in terms of transaction details and payment information,” she says. “It’s like customer service data. I don’t think most have figured out how to integrate it.”

“It’s daunting,” agrees Herlihy. “[Banks are] capturing too much information. But some companies have learned not to capture every single keystroke.” Instead, they focus on metrics that can feed into site design or marketing strategies, such as the number of pages prospects looked at before a transaction was logged, or how many times visitors came to a site to review its content prior to taking any desired action.

### **Analytics as Guide**

The smartest companies are those that start with marketing objectives and allow the analysis to serve as a guide to achieving

them, says Mayar. “However, if you start from the other way, saying ‘Let me look at all the data [and see what it tells me,]’ you will be lost in an ocean of data.”

Relevant inquiries might include discovering which search terms and banner ads bring the best return; analyzing the lifetime value of customers who join via the web against those who sign up in local branches; and determining how to market to online customers, who tend to be better educated, wealthier, and more specific in what they want from their banks.

Web path analysis is also very hot. Cutting-edge banks are exploring how to serve up the most relevant “next page” as visitors browse their sites. A busy, affluent prospect might be less interested in lengthy explanations of service and wish to move right to an offer and sign-up page. And an existing customer, about whom the bank has at least some transaction information, should be served up relevant, enticing offers for additional products.

Use of online analytics could have an impact on commercial banking as well. “Businesses have been anchored in the personal-banker world,” says Sams. “The web gives them an opportunity to [interact] with their customers in ways they’ve not been [able to do] in the past. They can chat, email and be in more constant contact with a variety of people in an organization. In the past they might have been in contact with one or two.”

### **The Numbers Don’t Lie**

Sophisticated web-based campaigns have had measurable benefits. According to a J.D. Power and Associates study, the typical online bank customer has been with his or her bank for 9.5 years, the same length of time as traditional customers. And they’re more likely to

recommend their bank (3.25 times during the last year) than offline clients (2.91 times in the same period).

Positive online banking experiences also were found more likely to contribute to customer satisfaction. The report states that two institutions, Commerce Bancorp and Wachovia Corp., have a higher-than-average percentage of customers using their online channels. And both scored highly in customer satisfaction ratings.

“However, [online customers don’t] use additional banking products at a higher rate or have a bigger share of wallet with their current bank,” says Jeff Taylor, director of J.D. Power’s banking practice. “Part of this is explained by their younger age, but that can’t be the whole picture.”

Perhaps, but a solution could be more finely conceived and executed cross-selling and upselling promotions. It seems banks have their work cut out for them.



# Banking Your Online Success on KPIs

by JASON BURBY, ZAAZ

April 2006



Rarely do I see a financial services organization that doesn't have enough data, especially web data. It's widely available and in abundance. Yet, business professionals and executive management are overwhelmed with it.

The most sophisticated web analytics tools such as WebTrends, now give you the flexibility to configure millions of custom metrics and reports. But, ironically, your team needs—and wants—a single scorecard with only the key metrics that are relevant and actionable.

So, how do you take advantage of the power and flexibility of the tools? What Key Performance Indicators (KPIs) matter in the world of financial services and online banking?

KPIs are the foundation to every successful web analytics solution. Having worked with several large financial services organizations in the past few years that wanted to better use the web analytics solutions they invested in, nearly all of them struggled with the same fundamental problem—a lack of agreed upon KPIs to prove and improve the results of their web business.

Only in the hands of a seasoned business analyst, whether in-house or via an outside consultant, will an organization reap the additional benefits of the deeper exploratory analysis capabilities that the web analytics and optimization tools now provide. And, only after an organization has clearly defined its online goals and established its scorecard of KPIs that align to those goals, does the more advanced analysis become a lucrative initiative.

So what makes a KPI? Are there any standards or best practices? What are other financial services organizations doing?

### **Defining KPIs**

We define KPIs as “the relevant metrics that are most important to the success of your business and that lead to action by your organization.” A KPI can be a calculated ratio. A KPI can be a count or sum. A KPI can include offline data. The key aspect is whether the metric is relevant to your goals. Take the time up front to clearly define your goals and think through these critical areas:

- Primary goals of your organization?
- Primary goals of your site?
- Goals of individual sections of the site?
- Are people accountable to the goals and the relevant KPIs?
- Identify and define successful visit profiles.
- What are the “desired behaviors” you have for visitors to your site.
- Ask business owners of different sections to give you a site tour and to talk through what they want visitors to do.

**Tip:** When defining KPIs, don't forget to consider offline conversions or behaviors that are influenced by site visits.

## The Top KPIs for Financial Services

Based on our experience, the following list of KPIs fall into five categories of site goals which we've defined for leading financial organizations in online banking, lending, trading, news and other related services.

<p><b>Goal: Customer Acquisition</b> <b>RELEVANT KPIs</b></p> <ul style="list-style-type: none"><li>• Start Account Sign-Up</li><li>• New Account Adds</li><li>• Application Download</li><li>• Pre-Approval/Qualification</li><li>• Locate an Agent</li></ul>	<p><b>Goal: Cost Reduction</b> <b>RELEVANT KPIs</b></p> <ul style="list-style-type: none"><li>• Self Service Visits</li><li>• Self Service Satisfaction Rankings</li><li>• Web % of Service "Touches"</li><li>• Average Cost per "Touch"</li><li>• Emails/Calls from Web</li></ul>
<p><b>Goal: Customer Retention</b> <b>RELEVANT KPIs</b></p> <ul style="list-style-type: none"><li>• % of Accounts with Bill Pay</li><li>• % of Accounts Active Bill Pay</li><li>• % of Accounts Active Online Monthly</li><li>• % of Accounts Active Online 4x/Month</li></ul>	<p><b>Goal: Customer Cross-Sell</b> <b>RELEVANT KPIs</b></p> <ul style="list-style-type: none"><li>• % of Customers Viewing Product Detail Pages</li><li>• Accounts per Household</li><li>• Add on Account Completions</li></ul> <p><b>Goal: Lead Generation</b> <b>RELEVANT KPIs</b></p> <ul style="list-style-type: none"><li>• Contact an Agent</li><li>• Request More Information</li><li>• Email Submission</li><li>• Webinar Sign-up</li></ul>

We recommend you use this chart as a starting point and then customize the list to your specific business—not every organization will have the same scorecard of KPIs. Also, we've found that most organizations are more successful when they keep their list of KPIs manageable and not exceed 10-12, otherwise you risk data overload.

# Financial Services: Up Close and Personal

by PETER MESNIK, *DIRECT* MAGAZINE

November 1, 2004



Financial services companies often shortchange their marketing efforts because there are too many questions and not enough answers.

**For example:** How can a firm design meaningful programs that will support its reputation? How do smaller organizations deal with the hefty price tag? Even if a company does have the money and resources, is there any way to know if marketing is really working?

Fortunately, the Internet has emerged as a marketing channel that's affordable, offers realistic measurement and can reinforce a firm's reputation across all business-to-business and consumer audiences.

### **Mutually Beneficial Marketing**

A mutual funds company may seek to establish stronger relationships within the investment community or a small firm of financial advisers may need to expand and grow its client base. In these situations and others, certain e-marketing formats are an ideal solution because they enable an interpersonal trust that readily converts into relationships and sales.

The e-marketing media that work best for financial firms mimic the dynamics of financial services relationships:

- What do most people want from an investment professional?  
Good advice and perspective.
- How do they want it delivered?  
Personally.

Given these parameters, e-media such as banners and pop-ups are inappropriate because they are highly promotional, vs. informational. And they're impersonal.

However, both large and small financial organizations are using e-newsletters to increase client trust, expand relationships with intermediaries and build business. When articles contained in an e-newsletter provide useful insight and perspective, they support the recipient's information needs while reinforcing the sending firm's role as a reputable institution.

Moreover, certain types of e-newsletters now deliver the personalization that's so important to customers and financial advisers. This includes content personalization that gives recipients articles tailored to their particular financial situation. And that personalization is supported by back-end analytics that track how e-newsletter subscribers interact with content, thereby determining which articles are of greatest interest and to whom.

Using this feedback, financial companies can segment lists into subgroups according to specific interests. Subsequent e-newsletters can offer personalized content for each of these subgroups that become increasingly responsive to that group's priorities.

This type of e-marketing is particularly effective when applied to tactical business goals such as client retention and acquisition. Customized content keeps current clients loyal and indifferent to poachers. And qualified acquisition leads are easily generated by embedded “refer-a-friend” functionality. It’s a demonstrable example of tangible return on investment.

Those concerns already practicing e-marketing often overlook the cross-selling opportunities they have to offer. For instance, by timing product information and perspective to clients’ financial life cycles, advisers can make sure they convey the right product to the right client at exactly the right time. And because audience segmentation is easier through today’s e-marketing back-end engines, companies can send out multiple initiatives with life-cycle content that have a highly personalized feel. If the e-marketing platform supplies analytics and content tracking, the feedback can be given directly to sales, providing yet another tangible way to map marketing effectiveness.

### **Investing in e-Chronicles**

Boston investment firm Eaton Vance Distributors, whose primary aim is to court advisers and planners within broker/dealer outfits, recently initiated an e-marketing program designed to leverage existing relationships and build new ones.

E-Chronicles, Eaton Vance’s official e-newsletter, contains timely articles that help advisers understand how the firm’s products support specific investment strategies. Morgan Mohrman, senior vice president, director of marketing and the creator of e-Chronicles, says the newsletter’s informative approach offers valuable insight to its adviser recipients. Equally important, the e-newsletter has built-in personalization. Each issue prominently features a photograph of the client’s wholesaler team.

“What we didn’t want to do is blast out these big broadcast emails from Mother Eaton,” said Mohrman. “If you’re a financial adviser you’ll give it a glance and dismiss it. But if you get a message from your Eaton Vance representative, then it’s personal. You won’t dismiss it and, from what our reports tell us, you’ll read it.”

Mohrman publishes various versions of e-Chronicles featuring different internal and external teams of wholesalers, each of whom is responsible for a geographic territory. Featured in every issue are tracking analytics that map content interaction behavior back to Eaton Vance Distributors’ client database. Two weeks after publication, Mohrman composes a report that tells wholesalers which articles and corresponding products their clients were most interested in reading about, how long certain clients spent with particular articles, and if they clicked over to Eaton Vance’s corporate site. All of this helps the wholesaler list and prioritize follow-up sales calls.

Eaton Vance also reaps secondary benefits from e-Chronicles. The firm’s wholesalers receive advance copies so that everyone has a shared understanding of which products it’s highlighting. But perhaps the biggest applause internally has come from the compliance department. E-Chronicles is flexible, so it’s simple to embed performance disclosures according to individual broker/dealer rules and regulations. This was a logistical nightmare with printed materials.

## **Planning Ahead**

Financial organizations looking to break into e-marketing can begin by choosing whether they want to develop and distribute their own publication or outsource it. An editorial marketing calendar should be created that maps out timely topics (tax season, college tuition

season, etc.) as well as vertical customer needs (retirement, wealth management, estate settlement).

A mailing list can be drawn from a current client database and expanded through e-referrals, business cards collected at seminars and previous sales contacts. Add informative content that positions a company as a valuable source of perspective and guidance, and before long that firm will be e-marketing with the best of them.

# The Coning of America

by RAY SCHULTZ, *DIRECT* MAGAZINE

November 2005



Steve Cone has never been shy about voicing his opinion. That trait came in handy when we sat down with him to discuss his views on CRM.

For starters, Cone doesn't like that acronym because it can stand for "just about anything." And he thinks many firms fail to practice what he calls right-time marketing.

Cone should know. He led Key Corp. from Stone Age to Cone Age, as *DIRECT* writer Diane Cyr put it in 1996, and has made similar contributions at American Express, Fidelity, Citigroup Global Wealth Management and the service bureau Epsilon.

And he has now distilled the wisdom of his 30-year marketing career into a book titled *Steal These Ideas*, published by Bloomberg Press, New York.

It's an easy read, and it does more than provide tips: it also tells what's wrong with marketing today.

Cone, who serves as managing director and head of advertising and brand management at Citigroup, was happy to tell us what's wrong with CRM, and to answer one question that had nothing to do with that subject.

1960s radical Abbie Hoffman wrote a book called "*Steal This Book*." Did Steve read Abbie's book?

Yes. But he didn't steal it.

**DIRECT:** In Chapter 12 of your new book, you write: 'Forget complicated clusters and demographics.' You might get an argument from the service bureaus on that.

**CONE:** Of course I will, because they're in the business of being complicated. Beyond that, it gets very esoteric and often unnecessary: Having spent millions of dollars trying to figure out who people are [when] we know who they are.

**DIRECT:** But don't you need to know certain things about customers?

**CONE:** The key is to keep track of every interaction you have with them, and to throw them into basic buckets: People who are very loyal to you vs. people who occasionally respond vs. people who only seem to respond to a special offer. Or people who have had a bad experience or don't even know they are a customer. I believe predictive modeling is a good tool. You look at customer behavior and focus on a few—just a few—key attributes to understand the likelihood of a person buying a particular product or service.

**DIRECT:** Like what?

**CONE:** The best prospect for a product or service is someone who just bought it. At Key Corp., for example, we created a system so that when a person had three months left on a car loan, that triggered a letter thanking them for being a customer and paying down their

loan, and offering them another with very little hassle. We found that people who pay off their loan generally go out and buy another car. How many institutions thank you for borrowing their money?

**DIRECT:** Do you subscribe to the one-to-one philosophy espoused by Peppers and Rogers?

**CONE:** I suppose. I'm not sure exactly what their philosophy is. I think guys like me at Epsilon created that philosophy long before they were in business. Our whole premise was building databases so that an organization could communicate directly with a specific customer or a donor about their relationship with the organization.

**DIRECT:** Even when you're not trying to sell them something?

**CONE:** You're always selling, aren't you? Even when you're apologizing, you're setting the tone for how you treat customers when something's gone awry. I cite my wife's experience with American Airlines. American has this database where it would send out very nice personalized apology letters for screw-ups on a monthly basis. But if you missed the last-day cutoff, you didn't get a letter for five weeks. That's what happened to Faye. She was delayed flying into Dallas because of the weather. She knew it wasn't American's fault. Five weeks later she got this very nice letter apologizing and telling her they were sticking an additional 2,500 miles into her AAdvantage account. All of which was very nice, except her response was: "They're four weeks too late."

**DIRECT:** How do you account for that failure?

**CONE:** The failure was that they should have spent the money to do a daily update so they could punch out the apology letters continuously, not once a month. It has to do with being cheap. Or maybe it was ignorance, giving them the benefit of the doubt. In the commercial world, we call it "post-purchase anxiety." When an

event, positive or negative, occurs, the organization needs to respond within a day or two, not a week or three or four or five.

**DIRECT:** Who does it well?

**CONE:** The TV evangelists operated on a continuous-stream system. You sent in a letter asking them to pray for you—whatever the three or four or five things you wanted them to pray for you about—and four days later you got a letter back telling you they were praying to those issues. Very impressive. That's why you sent them money. We were doing this in the '70s. You don't need sophisticated modeling to set up daily triggers that generate a response. In the online brokerage world, we respond immediately. Most services today show a real-time look at market prices for the client—not what it is for six hours or 12 hours but what it is right now. I don't know if CRM addresses those issues; I think it's a term that means just about anything.

**DIRECT:** Speaking of financial services, you said eight years ago that “the only thing that's changed in banking in 200 years is electricity.” Do you still feel that way?

**CONE:** I think we've evolved from dinosaur times. We're much more access friendly, and much more mindful of selling the right product to the right customer at the right time. And we do have systems in each business that keep track of the entire customer relationship. But I still think the industry as a whole doesn't do the kind of right-time marketing I talked about when I was at Key.

**DIRECT:** How does Citigroup shape up in that regard?

**CONE:** Citi does a good job in certain areas. I don't think other financial institutions really do. The Internet is terrific for clients doing transactions. They can do it all themselves. They don't need to deal with a person, which can be a hindrance or an annoyance. That's one thing that's changed since my days at Key Corp.

**DIRECT:** What kind of database do you need to serve customers across multiple channels in many nations?

**CONE:** There's no such thing as a master database for a global company like ours. There are country-specific laws in pretty much every country that prohibits moving data from one nation to another in many cases, or even from one business to another. There are certain applications that do cross borders, where they recognize you on a local basis because of your affiliation—like the use of ATMs. That's probably the best example. In fact, it may be the only one. It doesn't rely on moving data back and forth, but on an authorization system that connects to certain data centers around the world. We try to operate on the philosophy that all channels are accessible, and that customers make the choice. You contact us the way you want to—by phone, web, in person, at the ATM.

That's really the whole ball game: 24/7 access. Most financial institutions have always tried to be that way. We certainly were a pioneer in the ATM world. [We've been] providing worldwide access for many years now, wherever you happen to be. We started the technology years ago of making sure you never lost physical contact with your card, which at the time was absolutely radical. Every other machine forced you to stick the card in the machine, and the card disappeared and you wondered whether you're going to get the card back.

**DIRECT:** How did an entrepreneurial guy like you end up in financial services?

**CONE:** The reason I like financial services, which I know sounds a little Pollyannaish, is that it's a noble calling. After your health, the number-two issue for families around the world is financial security. And we in financial services are in the business of providing ways to achieve financial security for all levels of affluence.

# Phishing Hits Banks

by BRIAN QUINTON, *DIRECT* MAGAZINE

October 1, 2005



There's good news and bad news for banks about phishing, the scam in which identity thieves masquerading as trusted companies send out email to induce recipients to click on a link, go to a web page and give up their personal information.

The good news? More people are becoming aware of the threat. The bad news: This awareness may be leading recipients to delete authentic email communications from their banks on the suspicion they're fraudulent.

Consumers may not know everything they should about phishing—the crime is growing, according to observers—but they are at least aware that the email channel to and from their bank, credit union or online payment account is under siege like never before.

This is creating problems for financial institutions. For one thing, they're being forced to revert to paper communications, and this is driving up costs. And customers, suspicious enough of email already, are becoming wary about conducting transactions online at all.

But some banks are coping by coming up with innovative technological solutions.

A June research report from Javelin Strategy & Research found that 55 percent of those receiving an email purporting to be from their bank and asking them to log into their account say they delete the message without taking any action. That behavior costs banks money, says Javelin researcher Bruce Cundiffe, who authored the report—as much as 45 cents more to send out a paper bank statement than to email the same information.

Beyond that, there's the issue of public perception. The inability to communicate with consumers by email risks eroding confidence in a bank's ability to conduct online finance safely and securely. A recent survey by the Ponemon Institute found three-fifths of respondents consider it “unacceptable” for a bank not to respond to phishing schemes that use the bank's identity. Nearly 96 percent of customers said the bank should respond with technological safeguards. So while the crime occurs at the user's desktop, consumers are adamant that financial institutions must take the lead in providing a solution.

Charlotte NC-based Wachovia Corp. encountered this problem when it sent out email in spring 2005 advising customers of a new log-in web page after its merger with First Union Bank. The customer service desk promptly received a flood of phone reports of a potential phishing scam.

Realizing that malefactors had polluted its email stream to consumers, Wachovia moved to set up a secure online message center through which all account information must now travel. Online customers get an email that tells them a message has arrived in their Wachovia mailbox, but without an active link to the message center. It's then the customer's responsibility to surf to the proper URL, log in with user name and password, and open the message.

Lesson learned on Wachovia's part: In notifying customers of a subsequent acquisition of SouthTrust Corp., the bank went back to mailing paper letters.

### **Authentication: From Ice Skates to Sailboats**

Wachovia's message-center technique trades some of the efficiency of email for increased security. But that may make it a less than ideal solution, since at least some portion of online banking users won't take the time—or have the Internet know-how—to find their own way to the message center.

Another large financial institution has taken a different tack to reclaim email as a customer communications channel. Bank of America, also in Charlotte NC, has deployed technology from PassMark Security that should help retain email as a useful medium for getting its operational messages and marketing offers out to bank users.

SiteKey, the PassMark solution used by B of A, involves what's known as "two-factor authentication." Customers are invited to sign up for the free service by choosing a digital image from a library of thousands: everything from ice skates and cowboy hats to penguins and sailboats. At the same time, they concoct three "challenge questions" for further authentication if necessary.

The next time a registered SiteKey user logs on to the bank's web site, he enters his user name. The bank's system matches that user ID to a unique identifier that SiteKey places on the customer's computer. If the B of A server finds a match, it serves up a pop-up of the image the customer selected at registration. Reassured that he is indeed logging on to the official B of A web site, the customer can then enter his password and bank more securely.

“The system offers assurance to the bank that you are really you, using a device with a machine ID that you’ve used before to access your account,” says Mark Goines, PassMark’s chief marketing officer. “And two-way authentication means you can be sure the bank’s web site is real and thus feel comfortable entering your password and any other personal data your banking business may call for.”

SiteKey also will be applied to Bank of America’s email communications with its customers. After linking that same digital image to a user’s email address, the picture is inserted as HTML code into outbound B of A email messages, using the same technology that direct mailers use to customize messages with targeted offers.

Bank of America customers who open that email can therefore get the same reassurance of legitimacy that they get on the Internet. This then will allow B of A to make fuller use of email to transact banking business the most efficient way—by including live hyperlinks to web offers, account log-ins, bill payment centers or other action items directly within the message rather than forcing users to get out of their mailboxes and surf to a site on the web under their own steam.

Bank of America’s SiteKey rollout began in June in the bank’s Tennessee service region, but it’s expected to be both system wide and mandatory by the end of the year.

One of PassMark’s potential weaknesses, of course, is that users either have to have their preview pane open when checking email or trust the purported bank email enough to open it. Other users may not be able to see HTML code at all in their email.

To overcome these restrictions, the SiteKey platform has users associate a PassMark phrase with their image choice at registration: something random, simple and personal, such as “Maui trip” to

accompany a sailboat picture. That phrase is then used in the subject line of the message to increase opens, and in the spot next to the image in the email itself, so a user who can't see the image can still be reasonably confident the email really is from Bank of America.

PassMark's solution can place the necessary servers either on the bank's premises or with its third-party email sender. Most financial institutions PassMark has been talking with want to keep the Internet log-in authentication system within their own walls, Goines says. But when it comes to the email authentication portion, customers have shown they're as comfortable outsourcing that to third parties as they are any other email function.

"We're fine with adding this image processing to an outside vendor, provided we can protect the images [on third-party email platforms] with our own secure token technology," he says. "We separate the user ID names from the images and encrypt them, so no employee can break in and get both authentication keys. You might grab the image, but you'll never know which email address it relates to."

As large banks institute authentication measures such as SiteKey or the electronic token system Wachovia reportedly is planning to deploy later this year, experts believe phishers will move down the banking food chain to focus their assaults on smaller institutions such as second- or third-tier banks and credit unions. So in a very real sense, what Bank of America does today for its 13.2 million online customers, Hibernia Bank may be forced to consider tomorrow.

"Phishing is very much like the direct marketing industry," Goines says. "You can buy a list of 100,000 names, or you can earn the same return from 10 10,000-name lists. Smaller institutions are going to have to [set up] the same safeguards the big brands are putting into place now."

## Email Needs Infrastructure Help Too

Email's broken, says Dave Lewis—and he's not just talking about consumer trust.

That broken trust is important, says Lewis, vice president of market development for email systems provider StrongMail. It closes down email as a useful stream for one-to-one communication between marketers and their markets. Authentication measures such as Sender ID and DomainKeys will do something to reopen those channels, telling recipients (and their ISPs) who's trying to reach them.

But as emailers move slowly to adopt those standards, Lewis says, self-mailers and email service providers (ESPs) should be getting their back-end systems ready for the additional load that more robust systems of authentication, reputation and spam prevention are sure to impose.

“Some of the things needed in an era of true email accountability are infrastructure-related,” says Lewis, who also co-chairs the email accountability committee of the Email Service Provider Coalition. Within 12 to 24 months, marketers using email might be compelled to apply sender reputation—not just verifying who's sending email but what their past behavior has been—and classification of email into streams such as single opt-in, double opt-in, and transactional messages.

A lot of money already has gone into beefing up email's receiving end against spam attacks and handling a growing tide of incoming mail. But there hasn't been a commensurate investment by email senders, including both ESPs and those marketers that manage their own campaigns.

“When we’re talking about reputation and segregating and prioritizing your mail stream, that requires an infrastructure that can authenticate your records and insert reputation tags,” Lewis says.

As a StrongMail executive, he’s got a dog in this fight, too. In July, StrongMail introduced a new version of its email application server that includes a sophisticated bounce-back management feature and live updates to let mailers stay on top of the ISPs’ ever-changing standards for bounces and spam.

Lewis makes no bones about proselytizing for StrongMail’s platform, which currently is being used by a slew of large clients from Ticketmaster and Fox Sports to Netflix and Clear Channel Communications. But he says his experience both as vice president of ISP relations for ESP Digital Impact and in executive positions with Acxiom Corp. and Bank of America have given him a picture of just how unprepared for the future many ESPs and direct mailers are.

One problem helped by better sender infrastructure would be ISP relations, he says. That’s been a problem for emailers trying to improve their delivery and open rates; ISPs tend to be cryptic about why messages bounced and do not indicate whether they landed in a spam filter or a user’s inbox. As a result, emailers are forced to seed their lists with test addresses to monitor filtering and delivery.

“ISPs need to trust senders enough to feed back—for a price—information about where the mail has ended up,” Lewis says. “I think improving sender infrastructure can help with that. If you don’t have the system to support bounce management and tell what bounced, why, and what the suggested actions are, [the ISPs] are not going to answer your calls.”

# Bad Law Rising

by RAY SCHULTZ, *DIRECT* MAGAZINE

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## Martin Abrams talks with *DIRECT* about privacy regulations for financial services marketers

You think you have it tough with privacy regulations?  
It could be worse.

For starters, you could live in Europe. Unlike in the United States, privacy laws there are based not on preventing harm, but on giving consumers control.

Or European ideas could seep into the U.S. market. And regulators in other fields could have a dampening effect on financial services marketing.

So says Martin Abrams, executive director of the Center for Information Policy Leadership at Hunton & Williams, Washington. In a recent Q&A with Direct, Abrams provided an overview of the privacy challenges facing financial marketers. In general, he's wary of regulations that fail to enhance "either operational efficiency or consumer protection."

But he says they could be in the offing just the same.

**DIRECT:** What can financial services marketers expect on the privacy front?

**ABRAMS:** Privacy law in the United States is unstable. And it's unstable because of the way we've built it, and the way business processes have been globalized over the last six to seven years.

**DIRECT:** That sounds ominous. Can you elaborate?

**ABRAMS:** There are three reasons for the instability. The first is that United States privacy law was based on identifying and addressing a harm. It started with the Fair Credit Reporting Act. In that case, the potential harm was that inaccurate information could be used to make important decisions about individuals when they apply for credit, and that this could be misused in other settings if it were not regulated. The FCRA was followed by numerous other privacy laws, one layered upon the other. Probably the most important one other than the FCRA itself is the Gramm-Leach-Bliley Act. The perceived harm was the sharing of information with other organizations without the consumer having a choice. On the security front, it also specifies that organizations need to safeguard the data in an adequate fashion.

**DIRECT:** How does this harms-based approach differ from the European model?

**ABRAMS:** The European model begins with the concept of people having individual control over the information that pertains to them. It's a controlled-based system, rather than a harms-based system.

**DIRECT:** Is our system working?

**ABRAMS:** We've put lots of dollars into enforcement through the FTC or the various bank regulatory agencies. Our enforcement in the United States is really the envy of the rest of the world.

**DIRECT:** So what's wrong with our approach?

**ABRAMS:** This way of building law upon law has inevitably created conflicting requirements.

**DIRECT:** What are the other reasons for the instability?

**ABRAMS:** The second reason is that a lot of privacy law is based on decisions by the Federal Trade Commission. The FTC does not regulate depository institutions, but it's taken actions to define deceptive and unfair practices, and these influence the way any new law is considered by Congress and the state legislatures. They even affect the way financial services companies are regulated.

**DIRECT:** How could regulation of other industries affect financial services?

**ABRAMS:** On a strategic level, we could begin to see things like a push to oversee the unregulated parts of the economy. Let's say you work at a financial services company and you notice that retailers are required to have base-level information security in place to protect the integrity of the payment system. You might say "Great." But what if those requirements are more robust than those in Gramm-Leach-Bliley? Is that a stable place to be?

**DIRECT:** And on the tactical level?

**ABRAMS:** We incrementally require change through the regulatory process, especially in the area of information security, but not always in a way that enhances operational efficiency or consumer protection.

**DIRECT:** For example?

**ABRAMS:** It comes into play with the authentication requirements in the financial services arena (to protect consumers from identity theft). The regulations are very granular in discussing what they mean by two-factor authentication.

**DIRECT:** Can you define two-factor authentication?

**ABRAMS:** It means I combine a password I've given you with a fact only you would know.

**DIRECT:** Like my mother's maiden name?

**ABRAMS:** Yes. But it's always very dangerous when regulators begin to describe how something like two-factor authentication will work. Technology changes the best way to do these things over time. But then the fraudsters pick up on the way the systems work and re-engineer them for their own benefit.

**DIRECT:** And the third factor in creating instability?

**ABRAMS:** The third reason is the nature of data transfers has changed because of the way we've globalized business processes post-Y2K. It started when we began to build common data-application modules. We've managed these or outsourced them to other organizations to supervise. This means more of our regular business processes that use personal information are being managed in other locales. It's hard for those outside the United States to apply global data transfer to a system of laws that's layered the way our system is. So there's sort of an inherent sense that U.S. privacy law is unstable.

**DIRECT:** Will we be moving to the European model?

**ABRAMS:** There's a growing pressure to have an information policy system in the United States that better links with the rest of the world. Now, that doesn't mean transferring European data protection to the United States; it probably means a new and different privacy structure. But that's not going to happen until there's a leadership push from the top, and that's probably three to five to seven years away.

**DIRECT:** What's the risk in that?

**ABRAMS:** Other economies use information. But the United States

is unique as a marketing economy because of the way we prospect. Any changes in privacy law have to be respectful of the incredible value that this marketing approach has created for U.S. consumers.

**DIRECT:** We see what you mean by instability.

**ABRAMS:** There's also one other potential shock to the system, and it's almost an unavoidable one. It's that privacy notices are getting to be more clinical and easier to read. The financial services regulators just completed research on a prototype financial services privacy notice. Since Gramm-Leach-Bliley focuses on data sharing, the notice focuses on data sharing. It lists the seven types of sharing that can take place in a financial company, and where a consumer does and doesn't have a choice. Financial services regulators say they've been asked by consumers: 'How can you give us a sense the data is being protected when it's being shared so robustly?' That regulatory process has another two years to run, but as those notices get more clinical, the educational challenges will become even more critical.

**DIRECT:** Will this cover both offline and online media?

**ABRAMS:** All media.

**DIRECT:** What would you advise financial companies to do at this point?

**ABRAMS:** To understand that their use of information is going to become more transparent over time, and that they must convince consumers that more robust data flows are in their best interest.

**DIRECT:** Is that something you do as an industry, individually with your customers?

**ABRAMS:** You need to do both. But industry trade associations tend to react more slowly than do individual participants in the marketplace. Companies lead the way.

## ADDITIONAL RESOURCES

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