

PRESS RELEASE

STUDY HIGHLIGHTS BANKING INDUSTRY'S STRUGGLE WITH TECHNOLOGY ROI

PHOENIX /May 6, 2002/ -- A new industry study released by Cornerstone Advisors, Inc., indicates that most mid-sized banks are struggling to generate measurable returns on their investment in front-line sales and service technologies.

The Mid-Sized Bank Study 2002 benchmarks banking organizations between \$1 billion and \$20 billion in total assets. The study, an update to The Mid-Sized Bank Study 1999, reveals that mid-sized banks have not improved productivity in key sales and delivery processes, despite significant investments in technology.

“The study’s results reinforce the need for banks to better integrate technology investments with accompanying process improvements, measurement systems and cultural changes,” said Scott A. Sommer, president and CEO of Cornerstone Advisors, publisher of the study.

The study benchmarks banks in four main areas: retail delivery, lending, operations and administrative processes. Interestingly, back office functions such as deposit operations, accounting and loan servicing showed productivity improvements in the past three years. On the other hand, most front-office processes, such as new accounts, teller processing, loan origination and call center, had marginal improvements or declines in productivity levels.

For instance:

- Mortgage loan originators closed 11 loans per month in 1999 and only 10 in 2002.
- The average transactions processed per teller per month dropped 6% from 2,464 to 2,317.

- Commercial lenders still carry \$27 million on average in their portfolios, the same level as three years ago.

“Banks have invested heavily in their PC and network infrastructures, as well as Windows-based applications that surround back-end legacy systems, but we’ve found that these applications have not relieved the administrative workload on the front line,” said Sommer.

Cornerstone believes that process benchmarking studies like this will help promote greater accountability and strategic integration in technology projects, and the authors are encouraging banks to measure their own performance against the best practice statistics presented in the study.

Despite the industry challenges revealed, the study also identifies several positive trends:

- **Not all banks are struggling** - While median benchmarks were sluggish, the high performers in the study showed strong gains in productivity. Adopting the best practices of these banks will be critical to future growth and success.
- **Volume matters** – Cornerstone found that account and transaction volumes clearly correlate with productivity improvement in most processes. Most mid-sized banks will benefit from focusing on a limited number of key business lines and avoid areas with insufficient volumes.
- **Tech spending is under control** - Despite the e-commerce boom of the past few years, banks have kept their technology spending under control. Mid-sized banks continue to spend approximately 0.25% of total assets on technology each year.
- **The Web will be integrated** – Newer, Web-based technologies are being designed to help banks address their process improvement difficulties. While these applications promise greater ease of use and less technical burden, most mid-sized banks have not yet deployed Web-based applications inside their organizations.

“The future lies in adopting best practices, leveraging newer Web technologies and getting serious about measurement and accountability,” concluded Sommer. “We’re seeing a more pragmatic technology focus from banks these days and hope many will utilize our study to drive stronger performance improvements before we complete our next study.”

The Mid-Sized Bank Study 2002 can be purchased for \$199 (volume discounts available) via the Cornerstone Advisors Web site at <http://www.crnstone.com>.

About Cornerstone Advisors

Cornerstone Advisors, based in Scottsdale, Arizona, provides consulting and advisory services focusing on strategy planning, technology assessment, vendor selection and process re-engineering for mid-sized banks (\$1 billion - \$30 billion in assets) and other financial institutions.

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