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Surviving A Credit Crunch

His banking customers may be reeling. But Fiserv Chief Jeffery Yabuki is doing very nicely selling them risk and transaction software.

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TIM EVANS FOR FORBES

FISERV SHOULD BE ANother casualty of the credit crisis. The $4.7 billion (sales) Brookfield, Wis. software vendor sells tools that manage consumer loans, debit card services and online checking to the blighted financial industry. Many of its customers are ailing; some are clamoring for discounts. A year ago Bank of America—Fiserv's largest customer, accounting for 5% of its revenues—demanded a sweeter deal. Fiserv obliged, and took a 9-cent hit to earnings.

This year will be tough. Chief Executive Jeffery Yabuki, 49, is braced for little to no growth. Yet, irrepressibly, he calls the hand he's been dealt a "fantastic opportunity." Instead of cowering in the storm, Yabuki is increasing Fiserv's spending on product development, after already upping it a percentage point to 8% of sales in 2008, or $379 million. He's pushing hard on advertising to relaunch his firm's brand and filling out his upper management ranks. In March he hired Bank of America's head of online banking and ATM operations to spearhead Fiserv's efforts in data analytics. Credit crisis? A "catalyst" Fiserv and its customers need. "The turbulence we're in is a once-in-a-generation kind of phenomenon," he says. "The companies that enable the market with technology will prosper for years to come."

There's pressure to get it right. Yabuki is doubling down on a risky bet that banks will be able and willing to spend on new technologies. Over the past two years he's done deals to make Fiserv almost exclusively dependent on the financial industry for its revenues. The biggest was acquiring the online bill payment outfit CheckFree for $4.4 billion in August 2007. Last year Fiserv sold off a unit that processes health insurance claims to UnitedHealthcare, as well as a trust administration company and 51% of its insurance division for proceeds totaling $1.2 billion.

Why the confidence? "Banks aren't going away," says Yabuki. "There will be more accounts and more transactions three years from now, no doubt." Fiserv derives 85% of its revenues from account and transaction fees, typically pennies per event (such as a bill paid online).

Yabuki's pitch to beleaguered banks: The technology he's investing in just might increase the profitability of a bank customer by a factor of five to seven times over what it is today. Some of that comes from persuading the 58% of U.S. households that are not banking online to make the switch, and getting those already online to do more, like paying bills via their bank. Only 22% of

Americans pay their bills online through their bank, reports TowerGroup, a Needham, Mass. research firm. Banks drool over such customers since they can be 50% more profitable than those who pay bills by mail.

Much of the savings Yabuki promises will come from tools that have yet to be developed—systems aimed at helping banks better manage risk and sell lucrative products to existing clients. Over the last year and a half Yabuki's engineers have been mapping out where potentially useful bits of information reside across Fiserv's disparate software systems. He is hiring mathematicians and database administrators for a new division to create algorithms that will draw insight from data tracking consumer behavior. "This is a big, tough job," he says, "with potentially huge rewards."

Some perils, too. Fiserv is now competing with Fair Isaac, source of the ubiquitous Fico credit scores. Yabuki believes that more granular information—how people are using their bank accounts, online bill-pay service, debit cards and credit cards—will make predictions of default rates more accurate.

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Fiserv already uses some of its bank customers' data to spot fraud, even if it can't yet serve as an early warning signal of potentially sleazy activity. Unlike credit scoring systems (like Fico) that can't see the layer of activity below credit card and loan payments, Fiserv tracks consumer accounts, debit card payments and online bill-pay habits. Yabuki is pushing his quants to come up with a more accurate system for assessing the risk of one consumer compared with another. One example: Consumers who one month pay only a portion of an online bill (a practice known as "paying short") might knock their Fiserv ranking but would not impact their credit score.

That same data could also reveal a customer's need for a savings account, short-term loan or new credit card. The system, ideally, will learn from customer behavior. A bank could, say, set up an automatic offer—timed at the moment a bill gets paid—for a low-interest home equity line (if the customer is short on funds) or a high-yield savings account (for those with a high balance). Which customers bite—and which don't? Most of all, why?

Fiserv customer SunTrust is intrigued. "We want online banking to have a more personalized feel. You used to get that when you walked into your branch, and we see it as a big differentiator competitively for us online," says Hugh Gallagher, a SunTrust senior vice president.

For Yabuki, churn is a good business. Fifteen percent of households switch banks every year. Fiserv's risk ranking might open banking services to consumers who don't have a history of loans or credit card transactions, such as recent college grads or immigrants—but have demonstrated behavior that suggests they would be good credit risks.

The fight for credit-worthy customers is intense. "I need these tools to compete with Citigroup and Bank of America. They've got glitzy advertisements on television every night trying to get my customers to switch," says Patricia Mielke, chief operating officer at Premier Community Bank, a $200 million (assets) bank in Marion, Wis. Mielke is rolling out Fiserv's recently released set of analytical tools.

Can Yabuki's plan be that profitable? Anthony Ficarra, executive vice president at Fidelity National Information Services, a publicly traded firm in Jacksonville, Fla. that competes with Fiserv, has his doubts. "Consumers won't pay for online bill payment services, so the banks subsidize it and do what they can to push down our prices," he says. "There's opportunity in premium services on top, but the basic offering is a commodity." Then again, Fidelity recently acquired rival Metavante for $2.9 billion in stock and cited online banking as a promising growth area.

Yabuki says he won't charge banks much more for his new tools and believes they'll earn back their costs by trimming fraud and boosting the profits made on every customer. He, in turn, wins when the banks' transactions increase.

Meantime, step on the accelerator. In February, just when every financial news headline was terrifying, Yabuki bought advertisements in national newspapers and trade publications to relaunch the Fiserv brand. "We got more attention than we would have a year ago because we were a bright spot," he says. "It also cost a lot less than it would have a year ago." **F**