Making the Right Investment in a Core Processor

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A core processing system is so fundamental to the success of a credit union that the system choice will have an impact for years to come. Making the wrong selection can jeopardize the future of the credit union, leading to loss of members, staff turnover, and inability to meet strategic goals. A sound choice, on the other hand, lays the foundation for years of enthusiastic employees, membership growth, and solid financial performance.

With the core processor landscape evolving, credit unions considering a change are getting mixed messages about what they need to be successful. This paper focuses on the current qualities, tools, and attributes credit unions need from a core provider and technology partner. We'll explore these issues by looking at:

» The top features desired in a core processor

» The weaknesses of some core processors

» How the core can help achieve credit union priorities

» How to select a core processor that bolsters success

By sorting out the issues and putting them into perspective, we can illuminate key considerations.

WHAT DO CREDIT UNIONS WANT?

When talking about the desired attributes of a processing system, it's almost impossible to separate them from attributes of the company that offers it. The greatest product won't stand for long without great support. The best customer service in the world is not enough if the product isn't meeting user needs.

Because the vendor that offers your core will be an important technology provider in other ways, it's crucial to look at its ancillary products and services. For that reason, let's start with some solutions related to, but not directly arising from, the core system.

TECHNOLOGY PARTNER OFFERINGS AND ATTRIBUTES

Credit unions need **network security**, and a core processor should provide solid protection. Institutions look for services such as outsourced network hardware, data center storage backup, effective security applications, and the option for an outsourced, cloud-based core. In this regard, an ideal provider is one with an extensive infrastructure, hardware expertise, and also maintains a secure cloud.

Fraud detection and fraud alerts are a major concern when there is so much loss from criminal activity. A good technology provider offers identity verification tools and network protection. Some core vendors are also in the business of card and ATM processing. Institutions want an alert system that contacts cardholders about potential fraud automatically and gives them the option to deactivate a credit or debit card. This is in addition to both automated and human monitoring of card transaction patterns.

NETWORK SECURITY	FRAUD DETECTION AND ALERTS	SIMPLIFIED AUTOMATED PROCESSES	RESEARCH AND DEVELOPMENT	CULTURE AND COMMITMENT

Because credit unions need efficiency to thrive, you want tools to simplify and automate processes, as well as reduce errors. This points to a need for **workflow management** software. To accurately track performance and adapt to changes, credit unions use **data warehousing, analytics, and reporting** tools to present business intelligence clearly. You also need exceptional loan **origination and servicing** capabilities.

An important item here is **research and development**. A worthy technology provider has a firm commitment to staying fresh, to innovating, and modernizing its offerings. It should have a track record to prove it, and the financial and technical resources to carry through with development promises. A large client base for a platform ensures a bigger budget for development – consider the difference between a core system with a client base of 700 versus one with 50.

Finally, we should not forget **corporate culture** and **commitment to serving credit union customers**. You want a vendor that hears your voice, through surveys, user groups, advisory boards, and other feedback mechanisms. A technology partner concerned with your success offers conferences, webinars, and training sessions to build knowledge and confidence. It provides easily accessible documentation and release notes. It helps you optimize product performance. A great partner has high standards for customer service, including quick response, highly skilled technicians, and perseverance to get problems solved as soon as possible.

A FLEXIBLE CORE PROCESSOR

As credit unions plan for more **branch automation**, they look for an **open processing environment** that easily integrates with interactive teller machines, tablets, and other devices. They want integration with all kinds of third-party products, from biometrics, to imaging systems, to chatbot banking solutions, such as performing voice transactions with Amazon's Echo®.

Equally important is the ability to **customize the core** to fit individual needs. This is facilitated with modern programming languages and simplified coding tools. **Ease-of-use** is particularly important to avoid steep learning curves, delays, and errors. You want the ability to choose among an array of features and capabilities (such as comprehensive **loan support**). You want a **stable, dependable, platform**, and as mentioned earlier, this must be accompanied with high-level, personal, and comprehensive **customer support**.

Is your current technology partner providing what you need? Is your core processor meeting the standards outlined above? Credit unions should feel confident that they have a rock-solid foundation for immediate growth, long-term advancement, and flexibility for the coming years. When that confidence is lacking, it may be time to consider a search for a new vendor and platform.

EASE OF INTEGRATION	CUSTOMIZABLE	RANGE OF FEATURES	STABLE AND DEPENDABLE	CUSTOMER SUPPORT

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SOME CORE PROCESSORS ARE NOT UP TO THE TASK

When locking in a trusted partner to carry a credit union into its next decade, a misstep can be expensive. Red flags should be waving if a core vendor is inexperienced, has poor third-party integration, is not investing in its technology, offers very limited solution choices, or is not seriously focused on compliance. We'll address these five potential problems.

1. **An inexperienced vendor**. A start-up or relatively new core processing provider may have an original system architecture and slick interface. What it doesn't have is long experience with its system in the real world. A dependable, functional system requires many years of carefully adjusting its day-to-day usability and features to meet customer needs. Before then, it's not a fully polished product.

   To quote an article on the [Gonzo Banker blog](#)[1] about new core vendors, "They're an iteration or two into evolving their functionality to meet the demands of the market, and they are literally decades behind the established players in terms of smart bankers pounding on the vendors to get the features they need."

   > New vendors, however well-intentioned, do not have the hard-won experience of putting their cores into the field in dozens of different types of credit unions. Features may be claimed but barely tested, or promised, but not yet realized.

   This can't be overstated.

   There are other potential new vendor issues. A new player must have significant funding to keep its business and commitments afloat as it gets off the ground. If not, the company's lifespan could be limited. Also, its customers should be prepared for development and testing in the core set-up process and in ongoing changes. These changes could cause downtime and performance issues. Make sure the company has experience in the fundamentals of credit union processing, and a "deep bench" of implementation and IT support staff and resources.

   It's important to closely investigate credit unions that have adopted the new platform you are considering. Ask them how long they've been using the new system, what its shortcomings are, and what features are actually available now. As the Gonzo blog put it, "… you don't want to bet your bank's future on a product that is heavy on vision and light on just about everything else."

   As mentioned above, it's also important to evaluate what this vendor offers in terms of integrated tools across a wide range of credit union needs, as well as the infrastructure and expertise for SaaS products, data center operations, and disaster recovery. It can be troublesome to deal multiple third-party vendors to fill in the gaps

2. **A processor offering limited solution choices and limited integration with third-party providers**. You should be able to select the best solution for your members without being told that it isn't compatible with the chosen platform. You may also hear that the solution you want will require large integration costs, or a major programming effort, or that your solution will be available at some undefined future date. Also, if different operations and functions within a credit union can't talk to each other due to poor integration, it's an obstacle to getting things done, a chance for error due to manual operations, and a time waster.

Here are two cases in point:

Tony Pannone, CIO of Highmark Federal Credit Union, put it this way; "With our previous processor, we struggled in a lot of areas. We had outgrown the platform. We wanted to connect our products, including third-party products, with the core, but it wasn't supported."

Theresa Taggart, Enterprise Project Manager at Sun East Federal Credit Union, has a similar story. "The old processor was very limited, especially for third-party integration. It seemed as though anything we wanted to do either couldn't be done or there was a long customization turnaround time."

3. **A vendor unwilling to invest in, and adequately support, a core system.**
   Questions to investigate include:

   » What improvements are in the pipeline and what will this system look like in five years?
   » How much R&D funding is allocated to core development?
   » What are current users saying about customer support?
   » Does the vendor keep its promises regarding new features and overall modernization?

   This is a problem that Sun East Federal Credit Union encountered. Theresa Taggart: "They had stopped developing the core we were using. They were sunsetting it. To get things done, we had to create workarounds, and even workarounds for the workarounds!"

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4. **A vendor that does not maintain a credible focus on compliance.** Ideally, your core provider will have full-time staff dedicated to compliance issues, looking at probable changes in regulations, and preparing the core and ancillary products accordingly. If the vendor does not, credit unions might be looking at problems and extra work. The company should also be responsive and knowledgeable when you have questions about compliance related to its products. For example, in the area of loans, your provider should be a demonstrated expert in CECL compliance. This issue is closely tied to the research and development commitment mentioned earlier in this paper, as compliance issues represent a good portion of total R&D hours.

5. **A vendor with poor customer service standards.** It shouldn't take too many calls to a random sampling of a vendor's current customers to get an idea of its service standards. If you ask for references and are only steered to a selected list of showcase clients, that could signal a problem. When a core vendor has a terrific reputation, it will be very open and have no fear of who you speak with. To quote Tony Pannone from Highmark Federal Credit Union: "We were impressed at how few credit unions had ever deconverted from Symitar® Episys® [Highmark's chosen vendor]."

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Another key indicator regarding reliable service is employee retention rates. You can ask for turnover statistics of service employees. Also, if the company has a collection of "best place to work" awards, it's likely the kind of workplace where employees will stick around and gain knowledge, and where phone representatives are happy and will treat you well.

THE RIGHT CORE PROCESSOR SUPPORTS STRATEGIC GOALS

The full impact of the core's effect on success may not be immediately obvious. If you think about it in terms of your ability to innovate, however, the influence becomes clear. Changes come quickly today, whether they are technological, compliance related, or driven by member need.

If you want to attract new members, you must have the flexibility to painlessly add popular features. If you want to increase loan volume, you need the ability to quickly originate and service loans. If you want to enhance relationships with existing members, you must provide them with the efficient and modern services they ask for.

"We want to build out our digital branch," says Tony Pannone at Highmark Federal Credit Union. "That's where everything is trending." This was an important factor in his credit union's selection of a new core processor. "As far as digital technology, Symitar has its stuff together."

When a credit union wants to reduce paperwork and create lean, efficient operations, it looks to its technology provider for automated workflows. It wants the processing system to offer full support for complicated loans and leasing to minimize manual tasks.

This underlines why it's so important to have the ability to customize the core processor to fit individual needs. It was exactly this capability that was critical for Sun East Federal Credit Union. "We began using Episys two years ago," says Theresa Taggart. "We learned to customize with PowerOn® and continue to do that today. Once we make a change – such as streamlining our fee posting – then employees ask, 'If we can do that, can we do this, too?' So, the improvements keep coming."

> The processing platform either enables you or causes pain when you need to change direction, grow, incorporate third-party solutions, or switch from in-house to outsourcing.

Regarding customization, if the vendor enables credit unions to share or sell their own home-built modifications, it benefits the entire user community. Institutions can use this to speed time-to-market and increase opportunities, but only if customization is easy and facilitated by the vendor.

If your processing platform cannot easily offer and support the qualities described above, then it's a hindrance to success. Choose one that will underpin your goals, and not fight against them.

SORTING THE WHEAT FROM THE CHAFF – FINDING YOUR PROCESSING PLATFORM

Before you plunge into the RFPs and sales demonstrations, you'll want to sort through the contenders and come up with a short list of systems and vendors to seriously consider. A good process for doing this is offered by Callahan & Associates on the creditunions.com website.

They suggest beginning by making a list of core providers who serve credit unions like your own in terms of membership, asset size, and operating expenses. One way to do this is to use the creditunions.com "Search & Analyze" tool that enables you to create a peer group and see what core processor is used by each member of that group. You can make the peer group as large or small as you want to manage the extent of the process.

The next recommended step is to evaluate the performance of these credit unions. You can do this by researching 5300 Call Report data on the NCUA website. You can also use Callahan's Peer-to-Peer analytical tool. What you want to find is above-average efficiency ratios, as well as strong member and loan growth.

In the end, you'll have a list of credit unions like your own, and you'll know which ones are performing most efficiently and successfully. You'll know what core processing systems these successful institutions are using. A bonus outcome of this process is that your list of credit unions hasn't been hand-picked by the vendor. These are the institutions you want to call. A couple points about these calls:

» If they have recently converted, ask them about their conversion experience. This is an important data point. If the conversion was difficult, learn why it was so hard.

» If it's been several years since the credit union converted to that processor, then it's an opportunity to learn what it's like to have a long-term relationship with this vendor. Ask about the customer service. Find out if the credit union believes the core was worth the investment.

» Get feedback on their feelings about the core and how it factored into their success. Also, do they consider their core provider a partner in their ongoing growth, or just another vendor?

Once you've made these screening calls, you are armed with good information, and it may be time to begin the RFPs with your most likely choices. Regarding RFPs, it's best to make them very specific and focused. Address your particular business challenges and objectives, plus any pertinent questions generated by your screening calls.

It's highly recommended to make in-person visits to credit unions using the platforms that interest you. Points to consider for the visit:

» Bring a well-rounded and knowledgeable team with you

» Validate or negate the things you already believe about the processor

» See the system in action in all the institution's departments

» Observe the relationship between the employees and the core processor

FINDING YOUR PROCESSING PLATFORM

- Make a list of core providers

- Evaluate the performance of credit unions in your peer group

- Make screening calls to select credit unions

- Begin RFP process

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THE BEST INVESTMENT

As you embark on the next stage of providing service to members, think about gaining a foundation that will keep you in the forefront of service and security. Below is a summary of some of the points made in this paper.

You will benefit from a core vendor with:

»   A solid, stable standing in the industry

»   The resources to commit to ongoing research and development

»   A dedicated compliance team

»   The infrastructure and expertise to provide secure outsourcing and offsite services

»   A wide selection of integrated, up-to-date complementary solutions

»   A history of keeping its promises

You will succeed with a core processing platform that:

»   Offers stability and reliability

»   Is easy for you to use

»   Easily integrates with third-party applications of your choosing

»   You can rapidly customize as needed

»   Follows a clear roadmap to keep you in the forefront of the industry

It's been stated earlier, but there is one point that can't be over-emphasized; your technology/core provider ought to provide the customer service and attention that you deserve. This is an ongoing partnership, not a one-time purchase. Your investment should be respected for what it is – the basis of your credit union's operations.

A good core choice will offer years of dividends. Theresa Taggart at Sun East FCU: "Episys has added so much ease of doing things. We really have a different way of thinking. Instead of thinking 'We can't do this,' it's 'What can we do next?'"

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INVEST IN EXPERIENCE

What if you could integrate almost any product or service that you wanted with your core processor? What if you had the best customer support in the industry? Learn why more than 800 credit unions are succeeding with Symitar. Its unique combination of reliability and innovation gives you the freedom to make choices, serve your members, and achieve strategic goals.

*If you are considering a core processor change, or if you have questions about this white paper, please contact us at **askus@symitar.com**.*

SOURCES

[1] Hodgins, Scott. *"Core System Vendors: New Kids on the Block,"* gonzobanker.com, July 19, 2017

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