Outsourcing Proves Its Core Benefits to Credit Unions

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Outsourcing has long had a valuable role in many credit unions' IT strategies. Today, the forces driving credit unions to consider outsourcing – and the benefits they can gain from a successful provider partnership – are greater than ever.

With outsourcing, credit unions can eliminate both capital expenditures required for in-house installations and the need for on-staff resources to operate and manage in-house hardware and software. Since outsourcing providers are able to leverage economies of scale, credit unions not only benefit from lower costs, but also access to the latest technology and a more sophisticated infrastructure and processing environment than they might otherwise have the resources to acquire. Additionally, in today's compliance-focused environment, outsourcing shifts much of the burden of compliance to the provider, while also providing credit unions and their members with powerful security, disaster recovery, and business continuity resources.

Perhaps most importantly, outsourcing lets credit unions focus on what they do best – servicing their members – without worrying about the technology required to do so. Flexible and scalable outsourcing resources allow credit unions to provide more services to a growing membership base without over-investing in hardware or risking capacity restraints.

In this paper, you will discover the forces behind credit unions' renewed interest in outsourcing, the benefits outsourcing has proven to deliver, and how to choose a provider that best fits your memberfocused service philosophy.

Market Drivers

Today, several market forces have made outsourcing both hardware and software more attractive.

The Desire for Stability in an Uncertain Economy

The last decade has reminded everyone that economy is vulnerable to recession and disruption. If a credit union can avoid capital expenditures, conserve money, and have predictable expenses, it can plan for bumps in the economy. Maximally efficient operations with minimal IT expenses make for a streamlined "low profile" that can more easily survive ups and downs.

A Focus on Compliance

Compliance is becoming more and more demanding for credit unions. The number of regulations with which credit unions have to contend continues to increase, requiring them to spend more time assessing their technology platform in light of those regulations and providing information for reporting. According to BankingTech.com, increased regulatory oversight has been identified as the first of four drivers in the movement toward outsourcing of key functions (including core processing).[1] Other top challenges financial institutions cite include Basel III, the Foreign Account Tax Compliance Act (FATCA), and the Dodd-Frank Act.[2] Credit unions' compliance efforts are benefitted by reducing the number of information technology systems that they own, such as through outsourcing.

The Need for Business Continuity

Whether managing the risk of a local disruption or widespread disaster, credit unions need a strategy that enables them to continue to provide service to members. Credit unions are increasingly looking to outsourcing to deliver more robust security and stability and to insulate their operations from disruptions.

New Security Threats

There has been no shortage of recent news about financial institutions, other businesses, celebrities, and even politicians succumbing to attacks from hackers. In fact, vulnerability to security threats is a top concern financial institution executives point to when it comes to core processing.[3] By outsourcing management of their core processing systems, however, financial institutions can offload significant liability associated with security and fraud while also reducing the human resources burden of needing additional staff to address those issues.

[1] "The next phase of outsourcing: change the bank with digital transformation," Banking Technology, May 2015.

[2] "Core Banking Transformation: Measuring the Value," Capgemini white paper.

[3] CEB TowerGroup, FSI Technology Survey, 2014-2015.

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A Rapidly Changing, Competitive Market

Credit unions are under growing pressure to provide new and innovative products to attract and retain members. Outsourcing gives credit unions access to the latest solutions for not just core processing technology, but also for ancillary solutions needed to administer modern products. Therefore, credit unions can bring new products to market quickly and at a lower cost.

Benefits of Outsourcing

There is no “one size fits all” deployment strategy of core processing technology. Credit unions have valid reasons for choosing outsourcing over in-house deployment, or vice-versa. However, particularly in light of the aforementioned market trends, there are several key benefits outsourcing has proven to deliver.

Operational Expense Versus Capital Investment

In a time of recession, organizations are concerned about preserving capital. Outsourcing allows credit unions to turn IT from a capital outlay into a predictable operational expense. Additionally, with in-house processing, credit unions may sometimes choose to over-invest in hardware to be prepared for anticipated growth and the need for future scalability. Conversely, they may be faced with a point of saturation with their current computing platform and be forced to quickly add more hardware. With outsourcing, credit unions can contract for software and services on a basis that correlates to their actual need and which is scalable based on changing demand. Capital can be redirected into areas that improve member service and produce a positive return on investment.

Economies of Scale

Running its own data center does not allow a credit union the opportunity to leverage costs and achieve economies of scale. In contrast, an outsourcer is able to aggregate many credit unions and provide their processing on an environment that is still separate and secure either physically or virtually, yet housed within the same data center or even on the same hardware as other institutions. A provider’s specialization and expertise, lower cost structure, and economy of scale reduces a credit union’s operating costs and therefore increases the resources it has available to improve operations, offer innovative products, or otherwise enhance member service.

Fast, Easy Access to The Latest Technology

When a credit union manages its technology in-house, it is responsible for installation, upgrades, and ongoing maintenance. This requires IT staff, time, and money. Outsourcing shifts the responsibility for many potentially complex IT processes to the outsourcer. By speeding up and simplifying the process of new system deployments through prebuilt integration and by delivering ongoing upgrades, outsourcing provides credit unions with the benefits of the latest technology.

Flexibility

By delivering software solutions faster than credit unions can typically deploy them in-house, outsourcing enables credit unions to bring new products and services to market quickly and respond more nimbly to competitive pressure. This flexibility is particularly valuable in the deployment of technologies and systems that are important in today’s financial services market, but that are ancillary to core processing, such as online banking and remote deposit capture platforms.

Focus on Core Competencies

Outsourcers’ core competency is outsourcing – in other words, something that is a back-office function for a credit union is a front-office function for an outsourcer. As stated by renowned management consultant Peter Drucker, “What outsourcing does is greatly improve the quality of the people who work for you.” Outsourcing non-core business functions frees internal resources to focus on business-critical tasks. It also ensures that essential knowledge about software and systems is transparent, rather than locked within the experience of individual IT staff who will ultimately leave or retire.

Better Security

Outsourcing lets credit unions offload much of the burden of keeping up with not only technological changes, but also security and compliance requirements.[6] With outsourcing, systems are professionally maintained and data is secured in both a physical and technological manner that would be outside the resource capabilities of most credit unions.

Superior Disaster Recovery

Outsourcing can offer the peace of mind of knowing your credit union won't have to shoulder the burden internally for data recovery should an unexpected disaster event occur. With outsourcing, an experienced provider can provide a steady hand and superior RTO (enabling recovery in a matter of hours rather than days), plus automation tools that alleviate manual efforts for ACH and draft processing.

Easier Compliance

Meeting compliance demands requires significant time and effort from internal employees. Compliance staff must meet with regulators and external auditors and keep abreast of ongoing changes in requirements and regulations. With outsourcing, the bulk of responsibility for compliance around outsourced applications is shifted to the provider.

Case In Point

MPD Community Credit Union is a $26-million institution based in Nashville, Tennessee. It decided to switch to outsourced processing when the credit union's growth created a need to relieve daily administrative tasks. The CEO, Stephanie Sessum, added up the time used for daily posting as well as software and IT expenses. She compared this to the cost of using data center operations with JHA OutLink Processing Solutions™. The choice was obvious.

"We eliminated the hours equivalent of one full-time position," says Sessum. Tasks such as ACH, credit file downloads, and recurring entries are processed before the credit union opens for business. Other jobs, like share drafts and credit card file uploads, occur after the staff leaves for the day.

MPD Community saw not only that its personnel and IT issues went away with outsourcing, but there were other significant benefits. With Symitar storing and backing up critical data, member data security would increase. "This is also a huge advantage for disaster recovery and business continuity planning," says Sessum.

Decision Criteria

With outsourcing, credit unions benefit from preservation of capital, seamless access to advancing technology, and the ability to focus on their core competencies, allowing them to improve their service to members and increasing their competitive advantage.

However, in order to gain these benefits, credit unions need to choose a provider carefully. A credit union's due diligence should assess at least the following five minimum criteria:

1. **Financial stability.** Choose an established provider with the financial wherewithal to advance system capabilities and invest in infrastructure. Credit unions need to ensure that they are partnering with a provider that has both the resources and the commitment to fulfill its promises and advance its computing platform.
2. **Outsourced and in-house deployment options.** Select a vendor offering application software that can support both in-house and outsourced operating environments. Even if a credit union chooses to outsource today, it may ultimately determine that in-sourcing best meets its needs as circumstances change. Selecting a provider that offers both environments makes the change process a seamless transition, rather than a complicated conversion.
3. **A comprehensive solution suite.** Outsourcing is increasingly popular for core processing systems that credit unions use, but credit unions need a variety of other solutions as well. Although those solutions can be sourced from any number of third-party providers, credit unions gain advantages in dealing with a core-provided product suite. One advantage is product integration, and another is reducing the number of vendors that need to be managed.

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4. **Flexible system architecture and scalable hardware platforms.** "Vendor lock" has been one of the chief drawbacks of in-sourced deployment over time, particularly as credit unions struggle to integrate core systems with other platforms and make necessary upgrades. An outsourcer should provide a platform based on open architecture and that is both flexible and scalable to meet a credit union's changing needs over time.
5. **Experience.** Outsourcing is as much a relationship of trust as it is of technological capability, particularly with mission-critical core systems. Credit unions need to ensure their provider has demonstrated the ability to deliver software and services over time, including maintaining a proven disaster recovery and continuity plan.

Making the Choice

Ultimately, each credit union's culture and strategy determines whether it uses in-house deployment, outsourcing, or a combination of the two.

For credit unions that choose outsourcing, Symitar provides the ability to leverage an extensive infrastructure and sophisticated processing environment, eliminating the significant capital expenditures required for in-house installations, the need for resident resources to operate and manage in-house data center operations, and long-term capacity planning. Outsourcing also provides credit unions with the ability to narrowly focus on their core competencies with seamless access to advancing technology, strict regulatory compliance, and ongoing access to industry, technology, and security experts.

Symitar is uniquely positioned to support both in-house and outsourced environments and to leverage its market-leading solutions for enterprise-wide automation – Episys® and CruiseNet® – to provide turnkey solutions. Call us to learn more.