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Why More Financial Institutions Are Turning to SaaS

Firsthand Accounts of the Journey
From In-House to Managed Services

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It's 2 a.m., and you're awakened by the sound of your city's weather alarm sirens. A storm is blowing through, bringing damaging winds that topple trees and rip roofs from their structures. As the sun rises that morning, your community begins to pick up the pieces. After confirming people are safe, your first questions are, "Can my IT staff make it into the office today? Will my financial institution's accountholders have access to their money?"

This scenario is on the more extreme end of the wide range of reasons financial institution leaders consider moving from an in-house processing environment to an outsourced solution hosted and maintained in a data center. When it comes to all the technology a financial institution relies on to run basic daily operations and all the infrastructure needed to support it, there are more than enough scenarios to keep a CEO up at night.

The idea of a secure data center with primary and backup power systems, networks and the staff to run it all becomes more compelling every day. Add continually evolving technology and changing regulatory requirements, and the business case grows even stronger.
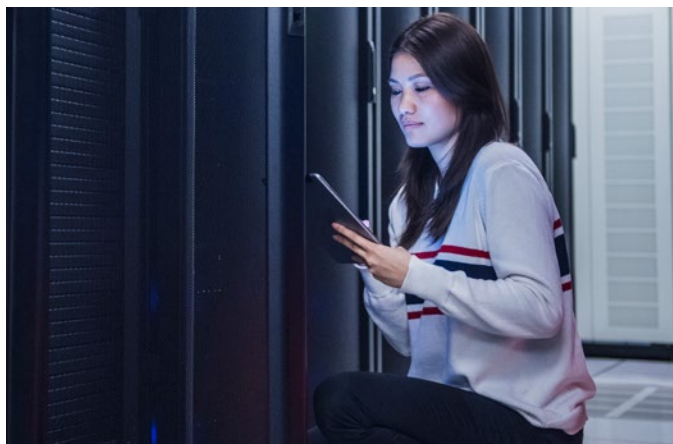
How Does It Work?

Software as a Service (SaaS), or software as a service, is essentially a managed data service that is a remote version of your own data center – located somewhere away from your organization's physical premises. This allows you to access your data through the internet. Most services offer expert database administrations (DBAs) and 24/7 services that monitor and remediate database performance issues, safeguard your data during outages and other failures, and much more.

When it comes to storing, accessing and protecting data, managed services are a cost-effective alternative to setting up and running an in-house data center. With a hosted environment, financial institution staff can focus on the business of serving accountholders. You can rely on your technology provider's qualified technology professionals and shift your IT staff's focus to other responsibilities.

You have faster time to market, enabling you to deploy new solutions more nimbly without new infrastructure. And you no longer need to lose sleep over things such as change control, vendor management, standardization, cybersecurity and business continuity concerns like data redundancy, business resumption and testing.

1 Reason 1: Cost

2 Reason 2: Efficiency and Staff Focus

3 Reason 3: Compliance and Security

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Reason 1:
Cost

One common reason financial institutions move to a data center from in-house is a universal goal: cut costs. The cost of personnel to maintain an in-house system, as well as the burden of continually updating and maintaining the system, can quickly cut into an institution's bottom line.

Craig Lowrimore, senior vice president and chief lending officer for Farmers State Bank in Quinton, OK, said cost was a major factor in his bank's decision to move to a hosted environment. "We considered what we would gain by moving to a hosted environment and tried to compare costs as much as possible. We gained more efficiency by our staff not having to deal with an in-house system and being able to automate more things that were previously manual. With the move, we added teller capture with tMagic™ and automated ACH processing directly through the data center. At the same time, we also transitioned our imaging system and gained some automation on the deposit side."

Cost also played a big role for AurGroup Credit Union in Fairfield, OH, said CFO Melissa Brenner. The credit union had undergone a merger that left it with an abundance of IT staff and a burdensome IT environment.

"It was a very cost-driven decision," she said. "The merger forced the issue, but it was the cost all along. With three credit unions, we had 12–14 staff, rent, audit and it was a taxable entity, as well. It was a huge cost and not a profitable endeavor."

Many financial institutions also find a cost benefit when it comes to system maintenance. For example, an excellent time to consider moving to a data center is when it's time to renew licenses for in-house technology. Outsourcing can remove the impact of license fees from the budget.

Reason 2:
Efficiency and Staff Focus

Beyond the possible cost savings on resources, there's the even more beneficial aspect of redirecting employee time and focus to the activities that move your financial institution forward: strengthening accountholder relationships.

Brenner said AurGroup Credit Union's staff has been able to do just that. "There are people on-site (at the data center) following best practices. We have learned so much about our system," she said. "And our frontline staff is more efficient. We can do products and services at a much faster pace now," she added.

Rusty Bracken is the sole IT staff for Farmers State Bank, and he said the move has definitely made his life easier. "I can now focus my attention on core problems instead of passing them off to client care. I can do more administrative things, like maintaining IT policies."

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> **Rusty Bracken**
> Farmers State Bank

After moving to an outsourced environment, a small IT staff can focus on new responsibilities, such as managing core projects, responding to help desk requests and redeploying to other parts of the business.

Reason 3:

Compliance and Security

Concerns about fraud and cybersecurity are ever-present for financial institutions, and being in a hosted environment can relieve that burden.

For example, having only one employee who is extremely familiar with maintaining the database and running end-of-day batch processes can pose a risk for the financial institution. Other risks come from inconsistent testing and adherence to the business continuity plan.

In the hosted environment, the financial institution can rest easy knowing the backups are done in a secure environment and it's prepared in case a disaster strikes.

Common Misconceptions

There are several common misconceptions about moving from in-house processing to a managed services environment, including the loss of flexibility for the financial institution. A good data center will be able to serve clients with a wide range of needs: processing times, third-party integration, special processing requests and others. In addition, outsourced institutions should be able to grow quickly while simplifying change and project management.

A second common misconception is cost. Some organizations assume that outsourcing a data center costs more than hosting it yourself. To get a complete picture of the costs and benefits, factors such as staff productivity, hardware and software costs, disaster recovery costs and compliance costs must be part of the equation. Organizations gain numerous financial benefits from outsourcing, including lower capital expenses, stable technology budgets and the ability to take advantage of the economies of scale a hosted environment can offer.

Many financial institutions that opt for SaaS delivery say they have gotten good return on their investment. Cost savings from building and data center upkeep, hardware and software upgrades, disaster recovery and reallocation of staff to higher value roles, combined with more predictable recurring monthly costs, all combine to provide a great economic value.

Moving to a hosted environment isn't a piece of cake, though. Kelly Jordan, senior vice president and operations officer at Farmers State Bank, said the conversion process is not unlike a core conversion.

"I have visited with some other banking friends and told them it's about a year-long process," she said. "We had a great project manager, and we had weekly meetings to review tasks. It was a smooth process, but it's a lot of stuff to think about and maneuver."

In the end, though, many financial institutions say they made the right decision with hosted delivery if for no other reason than it helps them sleep at night without worrying about the database or end-of-day processes. It's hard to put a value on peace of mind.

About the Author

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