

Using Core Systems to Enable Superior Financial Performance

Running a modern core system and having up to date technology is a competitive requirement for all credit unions today. Without a doubt, technology can improve financial performance and drive efficiencies. Because the money center banks and larger super-regional banks have lower costs per transaction, credit unions are at a clear disadvantage. That means they must work smarter to stay competitive.

A key aspect of “working smarter” is making sure that they are paying fair market value for their IT services. Credit unions do not have large IT budgets, huge IT Departments or the negotiating power of larger financial institutions. However, that doesn't mean that, armed with the right information and the right professional support, they can't successfully negotiate better contracts. In fact, a recent study by the Business Performance Innovation (BPI) Network shows that community financial institutions save an average of \$1.2 million over a five-year contract by renegotiating contracts based on national fair market pricing.

The BPI Network study tracked credit unions and banks with fewer than \$5 billion in assets to determine how much these institutions overpay for core processing and other IT services. We found even small institutions with fewer than \$250 million in assets that were paying well over \$2 million above fair market. For most credit unions, the challenge is a lack of information. They simply do not know what other institutions around the country with similar transaction volumes and services are paying their vendors

Whether they turn to their core system provider or other third party vendors, credit unions must continue to invest in their digital channels. Online and particularly mobile banking are currently two of the top areas for new technology investments. These digital self-service channels are table stakes right now for staying competitive and winning new members. Younger consumers especially demand mobile access and full functionality 7/24 on their mobile devices. Again, whether the credit union chooses a “best of breed” vendor or chooses their core system's digital modules, they must carefully negotiate their contracts to ensure fair market pricing based on national averages.

Compliance is another area that significantly impacts financial performance. Larger financial institutions have entire departments dedicated to dealing with regulatory issues, as well as the state and federal examiners, while credit unions are relegated to most of the same issues but are faced with much higher costs per size to handle their regulatory burdens. Our survey revealed that managing new regulatory requirements was one of the top four priorities for financial institutions in the coming 12 months, along with growing loan portfolios, improving operating efficiency, and adding new technologies and banking processes.

Credit unions must continue to innovate and add new products and services in order to stay competitive. This is due to the fact that net interest margins are currently at historic lows and the overall lending environment, both consumer and commercial, remains challenging. There is a powerful need to carefully manage non-interest expenses and make efficiency improvements from the back office to the teller line. Credit unions must continue to strive to make improvements across the board – while the recession may be over, the economy overall is still not that robust so there is no room for complacency.



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Dave Murray is the Executive Vice President of Programs for the Business Performance Innovation (BPI) Network. He consults with clients, develops creative brand platforms and drives successful authority leadership and Intelligent Marketing Engagement (IME) campaigns. The Wisconsin native began his career as a journalist and was City Editor for a major daily newspaper in the San Francisco Bay Area. He also served as a Vice President of Financial Communications at Wells Fargo Bank, managing communications issues around one of the largest banking acquisitions in history (Crocker Bank).



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