



Trends in Technology for Community Banks: Is Outsourced Processing Right for Your Bank?

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- “ **Managing Director of Technology Solutions for over five years**
- “ **Associated with Austin Associates for over seven years**
- “ **Over 30 years experience in financial technology**



TIPS FOR TODAY

- “ All participants are muted.
- “ Participant names and institutions are confidential and will not be shared.
- “ Questions and comments can be submitted in the *Go to Webinar* participant control panel.
- “ Time may limit our ability to address all questions, but we will get back to you directly.
- “ We are recording this webinar and it will be posted on the Austin Associates’ website and the YouTube channel.
- “ A complete recording with PowerPoint slides will be posted on the Austin website about one hour after this session.
- “ Technical difficulties? Contact Lisa Cordier at 419-517-1763

AUSTIN ASSOCIATES

Trusted Advisor to Financial Institutions

- Serving community banks for more than 40 years
- Specialized services through multiple practice areas

Investment Banking

Strategic Consulting

Financial Management

Technology Solutions

- Owners are consultants/managers
- Over 200 bank and thrift clients in 2014 from 26 states
- Nationally-ranked leader in community bank M&A for three decades
- Visit our website - www.austinassociates.com



AUSTIN ASSOCIATES

Trusted Advisor to Financial Institutions

Technology for Financial Institutions

- Critical
- Complex
- Costly
- One size does not fit all!

WELCOME

Chad Hoffman
President and
Chief Executive Officer
Richwood Banking Company
Richwood, Ohio



WELCOME

Warren Bauder
Senior Vice President and
Chief Technology Officer
First Security Bank
Bozeman, Montana



COMMUNITY BANKERS QUESTION WHETHER TO REMAIN IN-HOUSE

- **Regulatory pressure** . significant increase in the past 10 years
- **Data security concerns** . internal and external threats
- **Complexity of configuration** . multiple servers, releases and updates, real-time requirements
- **Mission critical infrastructure** . all delivery channels affected
- **Staffing requirements** . in some areas difficult to obtain or retain higher qualified personnel
- **Cost considerations** . hardware upgrades or software maintenance renewal often are triggers

A LOOK BACK

Why Banks Went In-House

- Primarily a core processing decision only
- Absence of quality service bureaus in area
- Provided better access to data for reporting and downloads
- Provided better control of processing
- Flexibility
- Cost control

MARKET REACTION

How Service Bureaus Have Responded

- Advances in data communications provide access to virtually any service bureau
- Advanced data analysis tools now easily accessible
- Greater control within data center standards
- Greater flexibility within data center standards
- Bundled pricing and enterprise licensing minimizes nickel and dime pricing issues

AREAS OF CONCERN

Considerations Unique to Your Bank

- Your exact configuration may not be supported when outsourced
 - Third party solutions
 - Unique processing schedules
 - Historical database access
- Upgrade to current version before migration
- Staffing considerations
- Facility redeployment

ADVANTAGES TO CONSIDER

How Outsourced Processing Can Improve Your Operation

- Full suite of software and services available
- Real-time integration
- Version management eliminated
- Release training enhanced in many cases
- Minimize downtime due to maintenance or failure

ADVANTAGES TO CONSIDER

How Outsourced Processing Can Improve Your Operation

- Disaster planning reduced
- Consider data communications redundant
- Data security concerns reduced
- Reduced management overhead
- Reduced regulatory concerns

Cost considerations – In-house

Different Cost Models for Each Delivery

- Begin by analyzing fixed assets
 - Itemize all servers and costs related to their operation
 - Determine write down as of date of migration
 - Consider disaster recovery expenses
- Identify software maintenance agreements and other recurring expenses
 - Determine annual recurring costs
 - Determine write down as of date of migration

Cost considerations – In-house

Different Cost Models for Each Delivery

- Recapture expense for personnel and facilities
- Current in-house expense study is a point in time study
- Does not predict future spending for replacement/upgrades

Cost Considerations - Outsourced

Different Cost Models for Each Delivery

- Confirm that the outsourced proposals are for existing services
- Length of agreement will exceed software maintenance agreements
- Consider business issues that are meaningful to your bank
 - Price escalation
 - Performance standards and remedies
 - Acquisition clauses
 - Exit fees for contract termination
 - Early termination due to acquisition
 - Deconversion fees

A Change in Culture

Outsourced Challenges

- Be willing to accept some loss of control
 - Loss of immediacy
- Avoid out of sight, out of mind
 - Management must continue to be involved
 - Shift focus from operations to deployment
- Monitor performance standards
- Discuss best practices for an effective relationship with your vendor

RICHWOOD BANKING COMPANY

Chad Hoffman, President and Chief Executive Officer



- Six locations
- \$450M in assets
- Asset size has tripled in last eight years
- In-house processing since dawn of the computer

RICHWOOD BANKING COMPANY

Chad Hoffman, President and Chief Executive Officer

Considerations when reviewing outsourced processing

- Effort to keep system current was outweighing advantages of in-house processing
- Concerned about losing control and access to data
- Overall costs kept increasing

RICHWOOD BANKING COMPANY

Chad Hoffman, President and Chief Executive Officer

Determining factors for decision to outsource

- Reduce time spent on updates and troubleshooting
- Rely on a staff dedicated 24 hours/day to perform operational duties
- Stabilize costs
- Once we were able to let go of the control issue, the decision was made

FIRST SECURITY BANK

Warren Bauder, Senior Vice President & Chief Technology Officer



- 11 locations
- \$750M in assets
- Teton Banks acquired during engagement with \$210M in assets
- In-house with current system since 1991

FIRST SECURITY BANK

Warren Bauder, Senior Vice President & Chief Technology Officer

Considerations when reviewing outsourced processing

- Felt compelled to review all alternatives
- Never had considered outsourced processing before
- Needed to measure each delivery's pros and cons
- Concerned about loss of control and flexibility

FIRST SECURITY BANK

Warren Bauder, Senior Vice President & Chief Technology Officer

Determining factors for decision to remain in-house

- Loss of flexibility and control
- Outsourced would be more expensive
- Talent pool readily available
- Existing infrastructure retained

IN-HOUSE OR OUTSOURCE?

No Single Decision Fits All Banks

Determine your requirements

- Delivery of processing
- Access to data
- System configuration
 - Third party solutions

Review your culture

- Comfortable with relinquishing control?
- Ability to accept change
- Impact of change on customers - if any

IN-HOUSE OR OUTSOURCE?

No Single Decision Fits All Banks

Competitive bid process

- Ensure market price
- Provides awareness of alternate solutions
- Challenge the status quo

Review processing capabilities provided

- Drill down to what is important to your bank
- Identify improvements as well as deficiencies
- Due diligence is a must

Austin Associates Technology Solutions

Custom Engagements Designed to Fit Your Needs

Project management includes:

- Review of strategic objectives
- Product and utilization due diligence
- Prepare custom Request for Proposal
- Provide comparative financial analysis
- Prepare vendors for onsite presentations
- Negotiate business issues and final pricing
- Participate in final selection

Austin Associates Technology Solutions

Custom Engagements Designed to Fit Your Needs

Project Benefits

- Minimize impact on your staff
- Common criteria used for all vendors
- Insure all vendors treated equally
- Apples to apples financial comparison
- Contract negotiation
- Confidence that your decision is made with all facts known

Austin Associates Technology Solutions

Custom Engagements Designed to Fit Your Needs

When you're ready, let's schedule a review

- Discuss your expectations
- Review you operation
- Consider all possibilities
- Provide a proposal for consulting services

QUESTIONS?

Trends in Technology for Community Banks: Is Outsourced Processing Right for Your Bank?

Thank you!

If you have questions or comments regarding today's presentation, please contact me.

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