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## Is Outsourcing IT the Right Move for Your Bank?

I love community banking. It is such a great group of people to work with. However, I have no idea why. They should be zombies. Most days I am just left shaking my head at all of the hats a community banker must wear and the industry pressures they must face. Keeping pace with technology and protecting your data are two very time consuming aspects to running a community bank but they don't have to be.



Technology is moving at breakneck speeds and community bankers have a target on their back. I mean not only do they have to compete with the large banks (who have a safety net and apparently unlimited resources) but the regulators seem to be out to squash the community banking industry. If this wasn't enough, there is the ever-looming momentum of FinTech startups and the possibility of major online brands jumping into the financial management space. Why do community bankers not just roll up the carpet and go to the house? Because America needs community banks. It makes sense that more and more community bankers are moving the management of their IT infrastructure to third parties. Community Bankers need bandwidth and they need to stay ahead of the curve.

### Growing Trend in Outsourcing

We all know that there is a trend in the industry for community banks to be outsourcing their core processing. In fact, outsourcing in general has become a hot topic around the community bank space because, internally, there are just not enough hours in the day and enough feet on the ground to get it all done. Community banks have not only jumped on the bandwagon for outsourcing core they are also outsourcing compliance and information security. It only makes sense to outsource the burden of managing your IT infrastructure (typically known as "Managed Services"). So let's take a quick look at what we mean by Managed Services.

### Managed Services Defined

It is important to understand the scope of services that are inherent in a Managed Services environment. Typically these services are "a la carte" and offered by most major Managed Service Providers (MSP). When moving to a MSP a bank will typically consider outsourcing the following day to day operations.

Offsite Hosting of Hardware	Data Communications Management	LAN   WAN Management
Internal Help Desk	Updates   Patches   Security	Firewall   Virus Protection
Server   Desktop Support	Intrusion Detection	Compliance Oversight

Obviously, the more you outsource...the more you are going to pay. This means proper due diligence is fundamental to not breaking the bank. So why should you consider Managed Services?

### The Case for Managed Services

What does your IT staff look like today? Are they over-worked and underpaid? Do you cringe to think that they might find another opportunity and leave the bank? Most community bank's IT staff is under water and do not

have the time to be proactive. Instead they are reactionary and constantly playing catch up. For most community banks there is not enough time in the day to manage your information technology and stay in compliance all while keeping up with management's strategic initiatives and vision for cutting edge technology and customer service.

Outsourcing your IT infrastructure management makes sense and your bank will reap the rewards in the years to come. You will need to open up your pocketbook and realize that you will not likely eliminate any full time staff; instead those resources can be directed at those projects that will streamline systems and better your customer experience. Let's look at some of the providers in the industry today.

### **Managed Services Providers (MSPs)**

There is no shortage of viable MSPs out there. In fact, to get a listing of the top 500 companies in the industry you can log on to [MSP Mentor](#). Community banking is a unique industry so when we lead a Managed Services evaluation process we like to stick with MSPs that focus solely on banking or have a high level of expertise in banking. After all, you want someone who knows their way around banking and all the fickle demands of the regulators. Here is a short list of some MSPs that we have had tremendous success with and have faith in their ability to service their clients.

[CNP Technologies](#)

[FIS Outsourced Managed Solutions](#)

[NetGain Technologies](#)

[CSI](#)

[Fiserv Managed Services](#)

[Safe Systems](#)

[D+H Managed Services](#)

[Jack Henry ProfitStars](#)

[Xamin](#)

As you can see from the list above, many of the core providers provide some level of Managed Services. However, we know many well respected CIOs that do not feel like it is wise to let the rooster watch over the hen house. So let's take a look at that dilemma really quick.

### **Core vs Third Party?**

Is it wise to push this set of "high risk" services out to your core provider who already provides so much to your bank? Our answer is...it depends. When considering your core provider or a third party it is important to consider the following variables:

#### Core

1. One less vendor to manage
2. Know their own systems
3. Relationship Discounts / Economies of Scale
4. Financial stability not a concern

#### Third Party

1. Separation of duties
2. Stronger focus on service
3. It's all they do - so they are good at it
4. Core agnostic - if you convert to another core solution you will not have to change MSPs
5. More flexible contract terms
6. Financial stability may be a concern

Inherently, there are advantages and disadvantages to both. I think the biggest upside to using a third party is the fact that they ARE core agnostic. If you choose to terminate your relationship with your core provider you are not forced to consider migrating your managed services as well. Regardless, a wise approach to your evaluation process would be to include your core provider and compare them to several other third party vendors. A solid due diligence process will afford you the opportunity to weigh the pros and cons of each provider.

## Due Diligence

At Genesys, we treat a Managed Services evaluation with the same level of detail as a Core evaluation. There is a lot at stake and taking your time to cover all the bases will save you a lot of money in the long run. First and foremost, this is a high risk service that you are conducting due diligence on and the FFIEC Handbook should be in your back pocket the entire time. Having said that there are some fundamental steps you want to take to conduct due diligence and negotiate your contract/pricing.

1. Take Inventory - Clearly define everything that you have today in terms of hardware and software. Determine what you want to keep and what is going to be migrated to a Managed Services solution.
2. Identify MSPs - Select up to 6 MSPs and send out a boilerplate Request for Information (RFI). The RFI should include basic vital information on your bank and your primary objectives. The RFI should define what you want delivered back to you and it is a good idea to keep it relatively simple. You may want to include items such as...
  - a. Number of banks they service on your core solution (and ancillary solutions)
  - b. Overview of their services
  - c. Company financials for the last three years
  - d. Third party audits | SOC Reports | SSAE 16
  - e. References on your core solution
  - f. Timeline of your evaluation process.
3. Narrow the Field - Based on the RFI submissions, narrow your playing field to three players.
4. Discovery - Allow each vendor to conduct discovery on your bank and ask questions regarding your needs and objectives. The discovery process with vendors will allow you to understand the level of detail that you will need to submit a Request for Proposal (RFP) to each vendor.
5. Presentations - Invite each vendor in for an afternoon to present their services and solutions.
6. RFP - Based on the discovery conducted by each vendor and the presentations given, send an RFP to each vendor that details your objectives, services needed and an inventory of your systems.
7. Reference Evaluations - Invest the time and call the references.
8. Cost of Ownership - Scrub through all the proposals and build a Cost of Ownership that compares the financial impact of each vendor's proposal. Pricing for Managed Services can get expensive very fast. Be sure to know all the costs associated with this move.
9. Elimination - Eliminate one of the three vendors based on your due diligence to date.
10. Site Visits - Visit each of the remaining vendors data centers
11. Finalize Pricing & Negotiate Operating Agreements - Negotiate the operating terms of your agreement while you are negotiating the pricing with each vendor. So many banks make the mistake of choosing their vendor before negotiating the contracts operating terms and conditions.

## Is Managed Services Right for You

Honestly, it just makes sense to outsource this stuff. What you gain on the back end is more time. Time to do the things you neglect. Time to do the things that will set you apart. Oh, and less time worrying about your data and who is trying to get it. I know, I know...it boils down to what it's going to do to your ratios. Your due diligence process will help to determine if you can handle the expense. While it may seem expensive as you are looking at the Cost of Ownership, be sure that management and the board understands what you are giving up by managing it all yourself. If you still can't get all "the powers that be" in agreement - simply thank the vendors for their time and chalk it up to experience.

Oh...by the way, we do this for a living. [Reach out to us](#) if you are interested in us leading a Managed Services evaluation for your bank.