

why credit unions are making the shift

A Renewed Interest
In Cloud Services



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overview

Cloud services have a valuable role in the IT strategies of many credit unions – and today, the benefits they can gain from a successful cloud partnership are greater than ever.

Hosting in the private cloud 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 cloud services providers can leverage economies of scale, you not only benefit from lower costs, but also gain access to the latest technology and a more sophisticated infrastructure and processing environment that you might otherwise not have the resources to acquire. Additionally, in a compliance-focused environment, leveraging the cloud shifts much of the burden of compliance to the provider, while also providing you and your members with powerful security, disaster recovery, and business continuity resources.

Perhaps most importantly, you can shift your focus to what you do best: serving your members. With flexible and scalable cloud resources, you can provide more services to a growing membership base without over-investing in hardware or risking capacity restraints.

In this paper, you'll discover the forces behind credit unions' renewed interest in the cloud, the benefits it has proven to deliver, and how to choose a provider that best fits your credit union's people-helping-people philosophy.

market drivers

Today, several market forces have made cloud-based services more attractive.

A Focus on Compliance

Compliance is becoming more and more demanding for credit unions. The number of regulations with which you have to contend continues to increase, requiring you to spend more time assessing your technology platform in light of those regulations and providing information for reporting. According to the twelfth annual Cost of Compliance report by Thomson Reuters, increased regulatory oversight has led to 34% of firms outsourcing all or part of their compliance functions and another 62% expecting more compliance involvement in cyber resilience.¹ Other top challenges financial institutions cite include growing competition, unsustainable cost pressures, and increased member expectations.² Through the private cloud, credit unions can maximize compliance efforts by reducing the number of information technology systems they're running.

The Need for Business Continuity

Whether managing the risk of a local disruption or widespread disaster, you need a strategy that enables you to continue to provide service to members. Natural disasters have more than quadrupled to over 400 per year since 1970 and heightened credit unions' awareness of the need for disaster recovery and business continuity, which in turn has helped drive the popularity of cloud services.³ Credit unions are increasingly looking to deliver more robust security and stability and insulate their operations from disruptions.



The average cost of an industry data breach in 2021 was nearly \$6 million.

New Security Threats

There's been no shortage of recent news about financial institutions, other businesses, celebrities, and even politicians succumbing to attacks from hackers. In fact, the first half of 2020 saw a 238% increase in cyberattacks on financial institutions, and the average cost of an industry data breach in 2021 was nearly \$6 million.⁴ But only 11% of CEOs feel their organization is fully prepared to handle a cyberattack, which is significantly down from 40% in 2017.⁵ By leveraging cloud-based core processing systems, credit unions offload significant liability associated with security and fraud while also reducing the human resources burden of needing additional staff to address those issues.

A Rapidly Changing, Competitive Market

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

A Greater Acceptance of Cloud Services

There is significant momentum in purchasing cloud-based applications in financial services. While some systems, like online banking and bill pay, have been moving in that direction for several years, a shift toward hosted core processing has been taking hold. More credit union executives are ready for the cloud, with 42% saying they're committed to adopting cloud services and another 54% indicating they are either curious or are considering a switch.⁶



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benefits of the private cloud

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

Operational Expense vs. Capital Investment

Cloud services allow credit unions to turn IT from a capital outlay into a predictable operational expense. If you're looking to replace your core system, the cloud is even more enticing today due to the low one-time costs and the fact that it is a much smaller hit to capital than ownership. With a cloud-first strategy, organizations can reduce infrastructure ownership expenses by 30-50%.⁷ 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 cloud services, you can contract for software and services on a basis that correlates to your actual needs, 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

Cloud strategies – whether characterized as use of application service providers (ASPs), service bureaus, or Software-as-a-Service (SaaS) – allow credit unions to implement software more quickly, with less capital up front, and often less training. Running its own data center does not allow a credit union the opportunity to leverage costs and achieve economies of scale. In contrast, a cloud-based host 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. Therefore, credit unions increase the resources they have 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. Leveraging the cloud shifts the responsibility for many potentially complex IT processes to the cloud-based host. By speeding up and simplifying the process of new system deployments through prebuilt integration and by delivering ongoing upgrades, the private cloud would provide you with the benefits of the latest technology.

Flexibility

By delivering software solutions faster than credit unions can typically deploy them in-house, the cloud 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

Credit union technology providers specialize in data processing. In other words, something that is a back-office function for you is a front-office function for a cloud-based host. As stated by renowned management consultant Peter Drucker, "What outsourcing does is greatly improve the quality of the people who work for you." Hosting non-core business functions free your 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

With cloud services, credit unions can offload much of the burden of keeping up with not only technological changes, but also security and compliance requirements. When you leverage the private cloud, 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

The private cloud 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 cloud services, 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 your internal employees. Compliance staff must meet with regulators and external auditors and keep abreast of ongoing changes in requirements and regulations. When you leverage the cloud, the bulk of responsibility for compliance around hosted applications is shifted to the provider.

decision criteria

With cloud services, 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.

While it's important to gain these benefits, choosing a cloud provider carefully is imperative, as a misstep in locking in a trusted partner to carry your credit union into its next decade can be expensive. Red flags should be waving if a core vendor is inexperienced, has poor third-party integration, is not investing in its technology, offers very limited solution choices, or is not seriously focused on compliance. In addition to taking these red flags into consideration, your due diligence should carefully assess the following five criteria:

- **Financial stability.** Choose an established provider with the financial wherewithal to advance system capabilities and invest in infrastructure. You need to ensure that you're partnering with a provider that has both the resources and the commitment to fulfill its promises and advance its computing platform.
- **Hosted and in-house deployment options.** Select a vendor offering application software that can support both in-house and hosted

operating environments. Even if you choose a hosted environment today, you may ultimately determine that an in-house environment best meets your needs as circumstances change. Selecting a provider that offers both environments makes the change process a seamless transition, rather than a complicated conversion.

- **A comprehensive solution suite.** The private cloud is increasingly popular for core processing systems that credit unions use, but you need a variety of other solutions as well. Although those solutions can be sourced from any number of third-party providers, you gain advantages in dealing with a core-provided product suite. In fact, financial institutions are looking to simplify their computing platform, and are selecting their core vendor instead of a third party for a variety of reasons including integration, price, and vendor management, all of which tie back to a lower cost of ownership.
- **Flexible system architecture and scalable hardware platforms.** "Vendor lock" has been one of the chief drawbacks of in-house environments over time, particularly as credit unions struggle to integrate core systems with other platforms and make necessary upgrades. A cloud-based host should provide a platform based on open architecture that is both flexible and scalable to meet your changing needs over time.
- **Experience.** Using the private cloud is as much a relationship of trust as it is of technological capability, particularly with mission-critical core systems. You need to make sure your 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, your culture and your strategy will determine whether you should use in-house deployment, a hosted environment, or a combination of the two.

For credit unions that choose the cloud, Jack Henry™ 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. Cloud services 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. Jack Henry is uniquely positioned to support both in-house and hosted environments to leverage its market-leading platforms for enterprise-wide automation.

sources

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