

HOME > SMA'S GUIDE TO OUTSOURCING YOUR CORE SYSTEM

A comprehensive guide to outsourcing your core... and more

As companies continue to face workforce challenges, many are looking at outsourcing their core as a way through. But have you thought of everything?

Introduction: how to outsource your core

Outsourcing, upgrading, or migrating your core system is no small task — or quick decision. But it can be critical to the ongoing vitality of your financial institution (FI).

Clients and members depend on the streamlined financial services your core supports. But as their needs and wants evolve, you'll need a core that is agile and allows the advanced features they expect, whether it's real-time balances in your app, the ability to turn a card off if lost, mobile deposit, or third-party integrations with other apps they use regularly.

Implementing innovative new services to serve member and customer needs while still maintaining current operations can be quite a challenge. Coupled with the current trend in workforce shortages and the fact that many legacy systems are a significant obstacle to digital innovation, it is obvious why many financial institutions are outsourcing their core and more.

By turning over the reins to a core provider, FIs of all sizes can provide innovative services without overburdening IT staff with their management and deployment. This shift in responsibility allows your in-house team to focus on ways to better serve members and clients so you can retain and grow market share in a highly competitive market. But, as many financial institutions have realized, outsourcing operations to a core provider is not without its own set of risks.

So whether your organization is in the consideration stage or is already outsourcing its core system, the question remains: How do you maximize the benefits of outsourcing at every level, while minimizing the risk involved? Our comprehensive guide provides actionable insights and best practices for outsourcing to ensure your core partnership promotes operational control, increased efficiency, and reduced risk.

Outsourcing contents


1. [Outsourcing overview: Getting to the core of the matter](#)
2. [When and why to outsource: Exploring migration patterns](#)
3. [The risk is real: Is resistance futile?](#)
4. [Mitigate risks with automation: Go with the flow](#)
5. [Maximize the value of outsourcing](#)
6. [Provider selection: Exploring core outsourcing providers](#)
7. [Provider directory](#)
8. [Additional resources](#)
9. [Final considerations: The core of the matter](#)
10. [FAQ](#)

Outsourcing strategy: Getting to the core of the matter

The best core system is one your clients or members never notice. Why? Because they only notice when the crucial infrastructure that maintains the banking platform fails, such as when deposits don't post on time or balances don't update. When the core is working, all your members and clients know is they can effortlessly deposit a check using their phone, transfer funds, or quickly apply for a car loan online.

Staff, however, have different needs for their core processing solution. One of the great benefits of keeping the system in-house is control. When the data is on-premises, IT staff and executives can confidently manage processes and timelines, see the data when they need to, and make changes to allow their other systems to interface with the core as needed. Outsourcing can seem risky, as data and processes move off-site and out of the FI's direct control.

How do you help maintain that environment where everything just works? Many FIs have chosen to outsource core and IT processes, especially as consumer demand for non-contact options grew during the COVID-19 pandemic.

 77% of retail banks outsource at least one function; 28 core processing providers; 35% of clients increased online banking usage during COVID-19; 63% of business leaders report that COVID-19 accelerated digital transformation; 3 out of 4 banking executives think legacy systems and manual processes slow data handling.

Of course, core processing isn't the only option when it comes to outsourcing. Other tasks commonly outsourced by FIs include:

- Data Management
- Security
- Identity verification
- Loan processing
- Disaster recovery
- App development


With a wide variety of core processing providers of different sizes, credit unions and banks are able to create a blended environment that not only meets the needs of staff, but clients or members as well.

When and why to outsource: Exploring migration patterns

While some financial institutions are able to manage a nimble core processor in-house, many don't have the staffing or budget to take on the development and maintenance themselves. That's when outsourcing to a white-label core processing provider makes sense.


If you currently outsource your core or are considering the option, you undoubtedly encountered some significant operational pain at some point. But in most cases, it isn't one service-related event or back office challenge, but a series of unfortunate experiences that led to the desire to outsource your core processing.

Common scenarios that lead to outsourcing a core system include:

 A bank that has experience significant in-house tech failures, a credit union that has an overtaxed IT department, a bank that wants a reliable business continuity solution, a credit union that has fully depreciated its core infrastructure, a bank that needs to integrate mobile banking and card control, and a credit union that has transitioned to a remote workforce model.

Outsourcing core processing can help solve these and other issues. And FIs typically find other benefits once they begin outsourcing services, especially in the area of member and customer service delivery in a post-pandemic world.

Consumer Needs Are Driving Digital Transformation for Financial Institutions

 These statistics illustrate why new digital products and services, as well as an emphasis on automation and technology, are necessary adaptations for financial institutions.


7 benefits of outsourcing for financial institutions

1. **Streamlined and secure banking operations:** Outsourcing provides less down time because of operational redundancies and high-level security features baked into most core processors.
2. **More efficient use of resources:** IT staff no longer has to work nights and weekends to apply patches and upgrades to systems. Managers are freed from day-to-day core maintenance to focus on strategic in-house initiatives.
3. **Ability to innovate:** FIs can develop digital growth strategies in-house or partner with core-compliant third parties to deploy market leading tools to better serve members
4. **Regulatory compliance:** Access to full regulatory and policy compliance reporting tools.
5. **Business continuity:** Robust backups and uptime ensures continuity of service and foolproof disaster recovery methods.
6. **Management of workforce risks:** With the right approach to outsourcing, processes can be documented to mitigate against risk of the loss of institutional knowledge as a result of staff turnover.

7. **Cost savings:** By saving money on investments in hardware, software, and certain IT positions, banks and credit unions can reallocate resources. Outsourcing also allows FIs to manage core data processing as an operational expense rather than a capital investment.

Why financial institutions resist outsourcing

Although outsourcing a core system has numerous benefits, there can be an element of risk. Even though outsourcing can allow FIs to be more agile and responsive to consumer needs, many continue to put off outsourcing because of the potential pitfalls involved. Weighing the benefits of outsourcing against the risks is an important consideration for financial institutions.

 3 out of 4 banking execs say security concerns stop them from outsourcing; 56% of execs believe innovation is time consuming; financial institutions shut down 488-64 hours to complete a core conversion; 1 out of 3 financial institutions are postponing digital transformation because of cost.

Mitigate risks with automation: Go with the flow

Loss of Control

One of the biggest concerns among FIs considering outsourcing is the loss of control when your processing moves out of house. What is the recovery process if the system goes down? How can your team integrate new tools into the core when it's not managed in-house? And who will ensure that your team has access to the data they need when they need it?

When your core is managed in-house, you know the answers to these questions and can shift priorities quickly when needed.

Consider this . . . *Maintaining staff during non-business hours is costly and distracts internal resources when new strategic initiatives need to be undertaken.*

Loss of Visibility

Would you get in the car with someone who told you they'd get you where you're going really fast, but you have to wear a blindfold the entire way? Maybe, but you'd probably feel uneasy. And that can be what it feels like to outsource your core processes.

You can see that processes occur, but you don't necessarily have visibility of the timing or duration. That can be a stark contrast to when your core is in-house, and you're able to set your own schedule, detect and address errors along the way, and make adjustments necessary to accommodate your internal needs.

Consider this . . . *When managing processes in-house, scheduling around regular operations can be challenging, not to mention burdensome for internal staff.*

Data Security

When data is stored on your servers, your staff maintains control of security procedures to safeguard member and client information. Sending data to cloud-based servers or outside networks involves additional risks outside your control. And when those servers are overseas, the risk of lax security procedures and lack of enforcement authority can make outsourcing seem even more dangerous.

Consider this . . . Data stored in-house is by no means impervious to hacks, social engineering, or other security breaches. Outsourcing can eliminate your IT staff's struggle to identify risks and manage security patch updates while managing other day-to-day issues.

Service Interruptions

Service interruptions are a real risk when processing is outsourced. Beyond the downtime involved in the initial transfer of data, there is the risk that servers will fail or the network will drop, and FIs have little control over how they are brought back online.

Consider this . . . *Hardware and software failures are a risk with an in-house core as well. And outsourcing can add levels of redundancy that are challenging for many FIs to maintain on their own to ensure business continuity.*

Loss of Institutional Knowledge

When you outsource processes to third parties, FI staff may forfeit valuable institutional knowledge about processing task scheduling, parameters, workflows, and more.

***Consider this . . .** Outsourcing to a third party can mitigate the risk of essential staff leaving and taking all of their knowledge with them, and replacing staff can be easier when they don't need the specialized knowledge necessary to manage an in-house fully proprietary core.*

Workload Automation and Outsourcing

At a basic level, workload automation is the process of automating routine and time-consuming manual processes. An automation platform uses software to schedule, initiate, and execute processes as defined by the user. More than just a batch scheduler, however, a robust automation platform offers financial institutions

the flexibility to create self-service workflows, deploy server updates, and monitor an entire system from a single user interface.

Although [automation offers benefits for FIs](#) separate and apart from the outsourcing process, because of its features and functionality, a robust automation platform can provide the safety net FIs need when outsourcing their core system. And for those FIs that have already outsourced, automation can help them maximize the benefits of outsourcing in tangible ways.

SMA Technologies' own workload automation and orchestration platform is called [OpCon](#). For organizations considering outsourcing, SMA's ops team can fully manage the outsourcing project so that your team can be redeployed to other strategic projects. [Request a demo](#).

Digital transformation is challenging and can be expensive

Outsourcing and automation are the one-two punch that helps mitigate costs, reduce risks, and finally allow the level of innovation your clients or members need.

It's also worth pointing out that workload automation and orchestration requires a minimal investment relative to the total costs involved with outsourcing to a third-party core provider. And the implementation can

be relatively fast as well. Even in environments where outsourcing isn't an option, workload automation is a crucial tool to improve organizational efficiency.

Read on to see [why workload automation and orchestration is mission critical for financial institutions](#).

5 Ways automation maximizes the advantages of outsourcing

1. **Restore control:** Outsourcing to a third party does not need to involve a complete relinquishment of control. An automation platform can monitor service level agreements (SLAs) and provide robust features for improving connections across an FI's application system, including the movement of files into and out of the core.
2. **Maintain visibility:** During and even after migrating their core, FIs can find it challenging to monitor processes and ensure that systems are operational. Workload automation and orchestration provides a real-time view of the entire system and allows all levels of the organization to work from a shared vision.
3. **Manage services:** As FIs strive to create an agile environment, it may be necessary to outsource more than just the core. The [right automation tool](#) can orchestrate numerous processes to provide enhanced functionality and seamless service to members and clients. And scalability is baked into automation so

that, in most cases, adding new workflows, processes, and integrations won't require increased staffing or the associated cost expenditures.

4. **Enshrine institutional knowledge:** , With the combined power of automation and outsourcing, an automation platform will preserve the vital knowledge of critical system processes and workflows, even when staff leaves or when processes move off-premises. FIs never have to worry that system processes will be lost because every step of the process will be automated and documented for easy retrieval at any time.
5. **Free up staff to innovate:** One of the most common benefits of outsourcing is that financial institutions can be more nimble and redirect internal resources to innovation initiatives. An automation platform has a multiplier effect on this benefit. One of our clients reported that they were able to reduce and redeploy staff hours by 1,000 per year after implementing our tool. Other clients have also found that they reduced errors by 90% by automating processes. When your team isn't spending time on repetitive processes that drain resources, they can focus on strategic initiatives to accelerate your digital transformation and move your organization forward.

Process outsourcing to the right provider: Exploring core outsourcing providers

As you investigate potential core processing providers, you'll need to investigate what they offer, how well they integrate with your other systems, and whether they will fit your overall needs.

The first step will be creating a cross-departmental team to oversee the outsourcing project, define the specific desired outcomes, and advise on the final selection of a vendor. Be sure that all relevant departments of the FI are represented: executives, IT, marketing, research, finance, and front-line staff. IT leadership should anchor the process and be given a voice in conversations related to the strategic direction of your FI.

Then look at the different vendor options and the products they offer. Read the product descriptions to see what features they offer. Explore their blogs and case studies. Review testimonials. See below for a directory of vendors.

During the initial exploration phase, you can narrow down a list of vendors to explore further. Consider assigning a subcommittee to handle this task while another subgroup takes on the next. Once you've got your shortlist, create a list of criteria with input from all departments in your FI. A rubric will help all members of the committee assess and discuss the viable options within a framework that defines your organizational objectives for the project.

Contact the vendors on your shortlist to get more targeted information, schedule demos for your team, and request pricing and contract terms. Also, ask for customer contacts you can speak with to get targeted information. However, don't simply depend on the contacts the vendor gives you. Reach out to other financial institutions for their unvarnished opinions.

Following is an evaluative framework that can help guide you through the process of selecting a provider for outsourcing your core.

Criteria to assess when evaluating core providers for your outsourcing strategy

Expand the content below to learn more about each.

Goals



Pricing



Alignment of Product Offerings



Integrations



Provider Specialization



Contract Terms



Scalability



Service and Support



Stability and Financial Strength



Provider directory

The core processing market is fairly lopsided in that a few big players serve the lion's share of financial institutions.

In all, there are 28 core processing vendors. The following alphabetized directory offers a selection of some of the largest core processing vendors.

Vendors for outsourcing core processing

Click into each of the vendors below to learn more about each.

COCC



Corelation



CSI



FedComp



Finastra



Finxact



FIS



Fiserv



Jack Henry



Nymbus



Additional resources

If you'd like to learn more about how to maximize the benefits of outsourcing your core, the resources below may be helpful for you:

The Case for Outsourcing

[5 Questions That Reveal Whether Your Core Strategy Is Prepared for the Future](#) (CUTimes.com)

- If you're still on the fence about whether or not to outsource your core, use the five-question framework in this article to guide your team discussion and determine whether outsourcing is the right approach for your organization.

[Thinking About Outsourcing Some of Your Operations? Make Sure You Plan Accordingly](#) (NCUA)

- This report provides the steps to follow to ensure that your FI has a solid strategy for the shift from in-house to outsourced. One of the key pieces in this resource is information to guide your risk assessment of the potential core processing vendors. Although we've covered the risks and benefits here, the framework provided by NCUA will help you do a highly personalized risk assessment.

[The 2021 CIO Agenda: Seize This Opportunity for Digital Business Acceleration](#) (Gartner)

- Gartner offers a business case for outsourcing, from the CIO point of view. The report covers the prospective organizational benefit of reallocating the IT budget to foster innovation and agility. It also

includes some interesting data on how digital transformation can benefit clients and members.

Vetting Potential Vendors

[AIM Evaluation: The Leading Providers of U.S. Core Banking Systems](#) (Aite-Novarica Group)

- Aite-Novarica Group provides an in-depth analysis of the core processing market and evaluates six of the top vendors. This report contains a lot of helpful information but, unfortunately, it's not free. [Contact Aite-Novarica Group](#) for pricing information.

[Core Systems Strategy for Banks](#) (McKinsey & Company)

- McKinsey offers a helpful framework for deciding whether to use a private or public cloud for your core processor. Many core processing vendors currently rely on a public cloud. If you are considering this direction, McKinsey offers a framework you can use to assess whether your vendor meets your security requirements.

[How to Avoid a Disaster When Switching Your Core Banking Platform](#) (The Financial Brand)

- What do FIs often overlook when assessing core processing vendors? User experience. Because so much member and client demand is driving digital transformation in FIs, UX should be a critical element to explore when choosing vendors.

Incorporating Workload Automation and Orchestration

[What Is Workload Automation?](#) (SMA Technologies)

- We've already explained how workload automation and orchestration can help your FI maximize the benefits of outsourcing and minimize the risks. This article offers a more detailed explanation of what

workload automation is and how it can help your organization.

[Top 14 Workload Automation Use Cases in IT, HR, & Accounting](#) (AIMultiple)

- This article offers specific use cases for workload automation in action. Although limited in scope, the tangible examples may be helpful.

[Leverage Automation to Double IT Output, Not Staff](#) (SMA Technologies)

- In this webinar, we cover real-work examples of how workload automation and orchestration can support your staff, free them up from repetitive tasks and increase employee morale and engagement.

Final outsourcing considerations: The core of the matter

Because your core system is such a vital part of your FI, making the right decision about whether and how to outsource to a third party can be daunting. And if you've already outsourced your core, it's possible your organization has not yet fully realized the benefits of the arrangement.

Most vendors offer some type of add-on that can move data to and from the core, but it may not be fast enough or provide the levels of visibility and control you require. Remember, you don't need to turn over the

reins when you outsource your core. Maintain operational control by managing your tech stack with workload automation and orchestration.

Core + workload automation & orchestration: Your one-two punch for effective outsourcing


Workload automation and orchestration puts you in the driver's seat when you outsource in five important ways:


1. Restore control when the core moves out of house.
2. Retain visibility of core processes.
3. Integrate processes and information across multiple outsourced and in-house systems.
4. Systematize and document tasks to ensure institutional knowledge stays in house.
5. Create an environment where staff have the time and resources to innovate.

At SMA Technologies, we leave nothing to chance when it comes to helping financial institutions navigate the visibility and control problems that can accompany outsourcing. We'll have *your* back when you partner with an outsourcing provider to make sure that you can maximize the benefits of your relationship with your third-party vendor.

Frequently Asked Core Outsourcing Questions

Click on the questions below to see what others are often asking about outsourcing.


Q: Even if we don't decide to outsource our core processor, is it worth exploring workload automation? 

Q: How can I get buy-in from front-line or support staff who may object to outsourcing? 

Q: What questions should you ask customers of your selected vendors? 

Q: What if we choose the wrong vendor? 

Q: Speaking of contracts, what can we negotiate? 

Q: What if you've already outsourced your core? When is it time to make a switch? 

Q: Is a public cloud safe for our core? 

Q: How can we be sure outsourcing is the solution to move our FI forward? 

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