



From the Eyes of a Technology Provider: Mid-year Financial Services Industry Assessment and Client Trends

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As a Vice President of a technology management provider focused solely on serving community financial institutions, I am privy to valuable insight to industry trends that become evident when working directly with our nationally dispersed clients on their strategic technology efforts. With an ever-watchful eye toward meeting the current needs of our clients and relieving the increasing regulatory and budget pressures that they are faced with, we pause at mid-year to survey the direction in which the industry is headed.

Throughout the first half of 2008, we have witnessed many community financial institutions, from New York to California, zealously search for ways to create efficiencies and reduce expenses throughout the institution. With a slowdown in construction lending and residential mortgages, our clients are looking to manage the institution with tighter oversight while employing a strong focus on attracting core deposits. In regards to the IT Enterprise, Compushare's experience has found that the greatest results can be generated by focusing resources and efforts toward a three-pronged approach: reduction of IT expenses, leveraging technology to generate revenue, and executing the strategic plans of the institution through the use of true CIO management principles.

The signs pointing toward an unavoidable economic slowdown were unveiled early on, and in 2007 Compushare challenged herself to find innovative ways in which the organization could contribute to the financial performance of our community financial institution clients. The IT Efficiency Ratio was created to establish a benchmark that institutions could use to determine whether they are spending too much or too little on non-strategic IT efforts. Much like a bank's efficiency ratio, this metric is used to evaluate the IT department's performance, thereby assisting in making decisions such as cost cutting and performance planning. It is calculated by averaging the adjusted monthly IT expenditure per Full-time Equivalent (FTE) over time. Research shows an efficient institution that strategically invests in technology spends \$300 - \$350 on average (minus core expenses) per FTE per month.

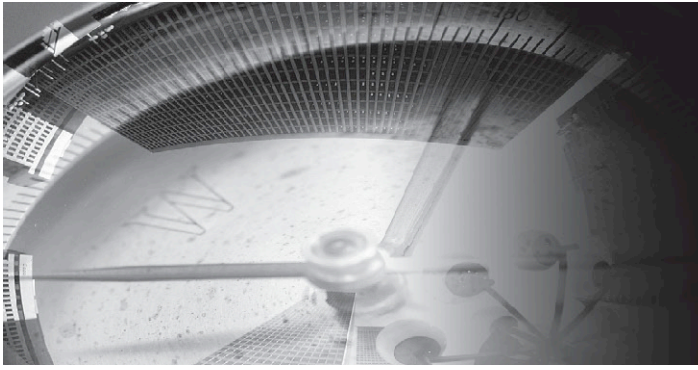
The vast majority of our clients typically cannot or strategically choose not to employ a true, in-house Chief Information Officer (CIO). The demand to pay a top dollar salary is usually not justified against the need for a full-time CIO in these community-based institutions. Our clients are seeing the value in outsourcing this strategic function to leverage the same benefits without the budget hardship. Strategically outsourcing to a provider like Compushare provides the necessary expertise in technology and financial systems, as well as the experience unique to an organization working with hundreds of peer and larger banks and credit unions. Compushare's Technology Management Group, launched in Q1 2008, was created to serve in a dedicated CIO capacity for our existing client base. The group consists of former bankers and CIOs that have experience in both the strategic and tactical planning necessary to execute these measures. Over the course of the year, we have worked with a handful of new bank clients providing an average cost savings in the IT arena of \$500,000.

Additionally, with salaries of IT resources in the financial services industry continually on the rise, many institutions are opting to

reduce in-house IT staff in favor of managed technology services. Robust managed services available today virtually eliminate the need to keep highly trained network administrators on staff to translate complicated system event logs and alerts. A managed services provider can remotely monitor and administer critical systems, workstations, data backups, security firewalls, etc. in real-time and proactively take action when problematic or suspicious activity occurs. Across the board, institutions are glad to usher non-core competency functions out the door, including service desk / help desk responsibilities. We'll continue to see institutions embrace this technology management model as budgets continue to constrict and management teams look to dedicate all resources toward strategic and revenue generating initiatives.

Online banking initiatives are also generating a loud buzz as community financial institutions find it increasingly more challenging to compete with MegaBanks and NetBanks on the Web. Geographical boundaries are becoming blurred as customers rely increasingly on the Internet to find their next checking and savings accounts. Much like the ATM changed the competitive landscape of banking, online banking has been pegged as the next revolution. Recognizing the changing environment, Compushare has been helping clients to leverage advancements in technology and reduce costs by repurposing the website from a static brochureware site to a revenue driving asset. Compushare's newest offering, Web ROI Assurance, enables institutions to focus marketing efforts on a prospect base that has gone largely ignored and untapped by peer institutions. Community financial institutions can initiate new account capture online by appealing to a targeted audience through strategic site design and search engine optimization, resulting in a lower cost of obtaining new accounts and the ability to track ROI on each new application funded online. This immense competitive advantage is delivered at a fraction of the investment made by MegaBanks on their online banking initiatives.

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We continue to see de novo activity remain high across the country, although the application approval process and capital raising timetables has certainly increased. Initially, we had expected Merger & Acquisition activity within the community banking industry to pick up in the second half of the year, but our investment banker friends have indicated that the first half 2009 is the more likely timeline. Compushare remains focused on pursuing the de novo market and these institutions continue to look to us for a complete outsourced technology management, IT strategy and compliance solution.

Tellingly, as economic uncertainty and budget pressures increase, financial institutions turn to technology investments to differentiate themselves in the market, opposed to slashing funds as one might think on the surface. The difference lies in moving from a technology “expenditure” to a technology “investment” strategy that aids the institution in accomplishing its business objectives. Those that understand the principle beneath this approach will ensure their institution’s livelihood and win the race for deposits.