

Over 90%
of credit unions
have backup
operations in place
in case of member
service disruptions.



Benchmarking Technology Enhancements & Business Continuity Plans

February 2012

Introduction

Credit unions are increasing technology spending in 2012, with budgets calling for investments that enhance member self-service capabilities and interactions, while continuing to improve internal efficiencies. The eighth annual survey was launched by Callahan & Associates in October to better understand credit union technology budget dynamics, investment priorities, and perspectives on utilization in the coming year. Ongoing Operations, a national business continuity and technology CUSO, helped develop and sponsor the business continuity and cloud solution sections of the survey to allow credit unions to benchmark their plans.

Methodology

Callahan's eighth annual technology survey presents an annual snapshot of credit union technology priorities and budgeting. The 2011 survey results are based on 83 credit union responses, representing \$52.4 billion in industry assets. Respondents ranged from \$14 million to \$9 billion in assets, with an average asset size of \$631 million and median asset size of \$274 million.

Respondents to the online survey were queried on their existing technology, future plans, technology budgeting, and staffing. Data included in this report is based on a series of questions regarding the credit union's business continuity planning and cloud solutions.

Key Findings

Technology Spending in 2012

- Technology budgets are increasing at nearly three out of four credit unions in 2012, with a focus on budgeting for improved member service and productivity.
- Technology-related expenses continue to account for between 5% and 10% of total operating expenses at the majority of credit unions.
- IT staffing is expected to remain constant at credit unions in 2012, as two-third of credit unions reported no expected change in staffing numbers and only one credit union reported they expected their staff to decrease.
- Mobile banking solutions, such as mobile websites and iPhone/Android apps, were a frequent response as an investment priority in 2012.

Business Continuity Spending

- Budgets for business continuity continue to be below \$25,000 at most credit unions, while a good portion of larger credit unions are spending at least \$50,000.
- Recovery Time Objectives are five hours or less at 73% of credit unions. Recovery Point Objectives at credit unions vary, but 36% of credit unions tolerate no loss and 17% required a loss of 30 minutes or less.
- Cloud technology adoption has been slow at credit unions to date due to concerns about data security, losing control over member data, and costs. However, nearly 12% have plans to add cloud computing solutions in 2012.

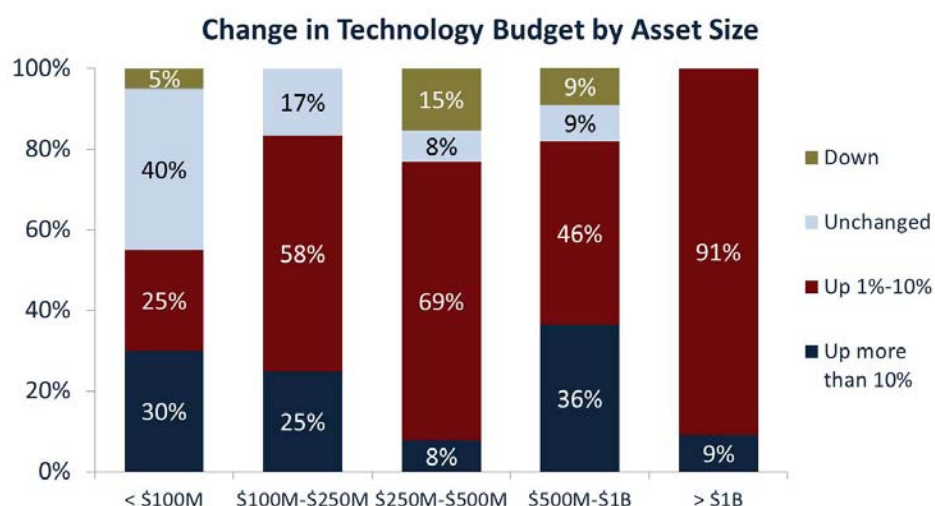
Technology Budgeting

2012 Technology Budgets Increase at the Majority of Credit Unions

Nearly three out of four credit unions indicated they will be increasing their technology budget in 2012. Seventy-four percent of respondents plan on some increase, the highest proportion reporting an increase in the past three years. Twenty-two percent of respondents have budgeted for double-digit increases in tech spending in the coming year, while another twenty-eight percent plan at least a five percent increase.

Twenty percent of credit unions are maintaining their 2012 technology budget at 2011 levels. Only six percent of respondents are budgeting for a year-over-year decline in tech spending, the smallest percentage since we launched the survey.

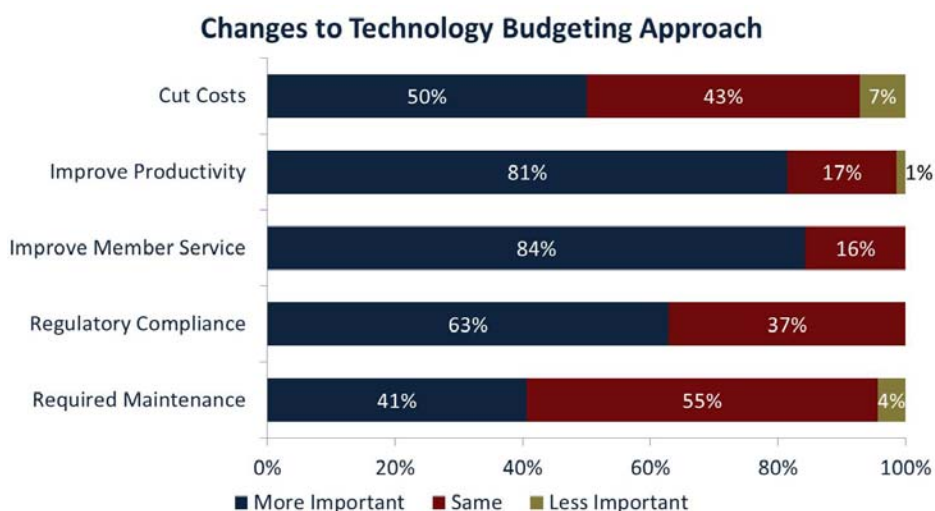
The increased expenses are largely not due to additional personnel, as two-thirds report no planned changes in IT department headcount in 2012. Twenty-seven percent of respondents plan on adding one or two new staff members.



Spending Increases to Improve Productivity, Member Service

The survey also queried credit unions on how the components of technology spending are changing, including cost cutting, productivity, member service, regulatory compliance, and required maintenance. Many credit unions reported that they are changing their strategy in order to prioritize improving member service, as well as improving productivity.

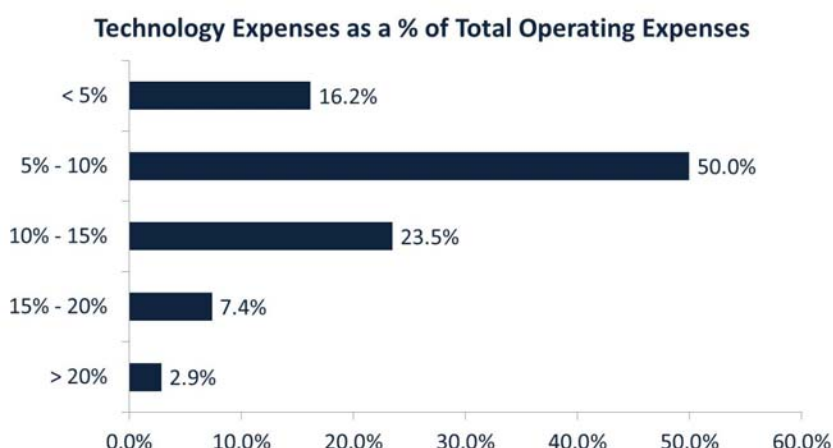
Required maintenance was the area where credit unions are most likely to place the same importance in budget priority as they did last year.



Credit Union Technology Spending Expected to Top \$2.3 Billion in 2012

Technology-related expenses account for between 5% and 10% of total operating expenses in the median credit union respondent, consistent with prior years' surveys. Fifty percent of respondents reported that their technology expenses fell within this range.

Based on this data, a reasonable estimate of the average credit union technology budget is between 8 and 10 percent of total operating expenses. Measuring this percentage against industry totals indicates credit unions will spend between \$2.3 and \$2.9 billion on technology in 2012.



IT Staffing Expected to Remain Constant

Additional personnel are not driving up technology budgets, as two-thirds report no planned changes in IT department headcount in 2012. 32% of credit unions plan on increasing their IT staff in 2012, with 27% of respondents planning on adding one or two new staff members. Only one credit union reported planning on decreasing its IT staff in 2012.



The number of IT staff is also correlated to the size of budgets and asset size. Almost all credit unions with under \$100 million in assets reported having 1 or 2 full time IT employees, while half of the credit unions over \$1 billion in assets reported having 15 or more full time IT employees.

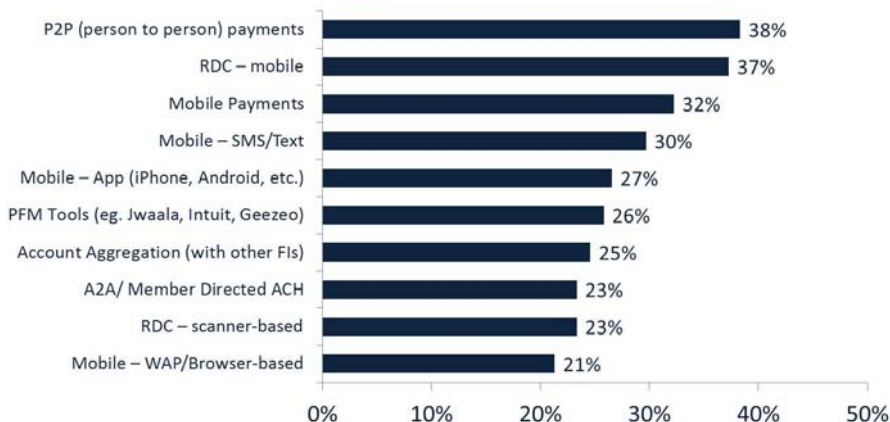
| Number of IT FTEs by Asset Size | | | | | | |
|--|--------------|--------------------|----------------------|----------------------|--------------------|------------------|
| | Total | < \$100M | \$100M-\$250M | \$250M-\$500M | \$500M-\$1B | > \$1B |
| 0 | 21.7% | 50.0% | 27.3% | 0.0% | 9.1% | 0.0% |
| 1 | 17.4% | 36.4% | 27.3% | 7.1% | 0.0% | 0.0% |
| 2 | 13.0% | 13.6% | 36.4% | 14.3% | 0.0% | 0.0% |
| 3-5 | 13.0% | 0.0% | 9.1% | 35.7% | 9.1% | 18.2% |
| 6-10 | 24.6% | 0.0% | 0.0% | 42.9% | 72.7% | 27.3% |
| > 10 | 10.1% | 0.0% | 0.0% | 0.0% | 9.1% | 54.5% |

Mobile Banking Leads Technology Investment Priorities for 2012

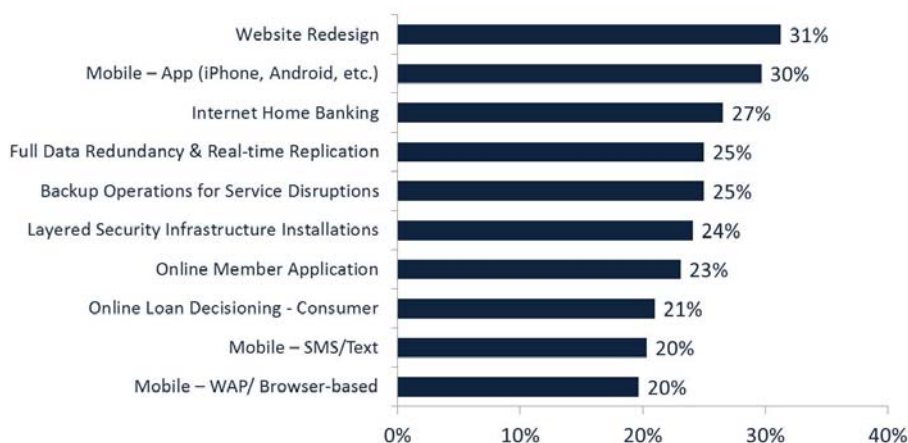
Mobile banking is the most frequently identified area of technology investment in 2012 among survey respondents. The investments include implementing a mobile banking solution with SMS/Text, an iPhone and/or Android app, and/or a mobile website. Some credit unions that already have mobile banking technology are looking to enhance it with capabilities such as bill pay or remote deposit capture.

Other frequently identified priorities include redesigning the credit union's website, upgrading the home banking platform, enhancing business continuity systems and implementing online personal financial management tools. The responses underscore the focus on member service in technology investments for 2012.

New Technology Services Planned for 2012

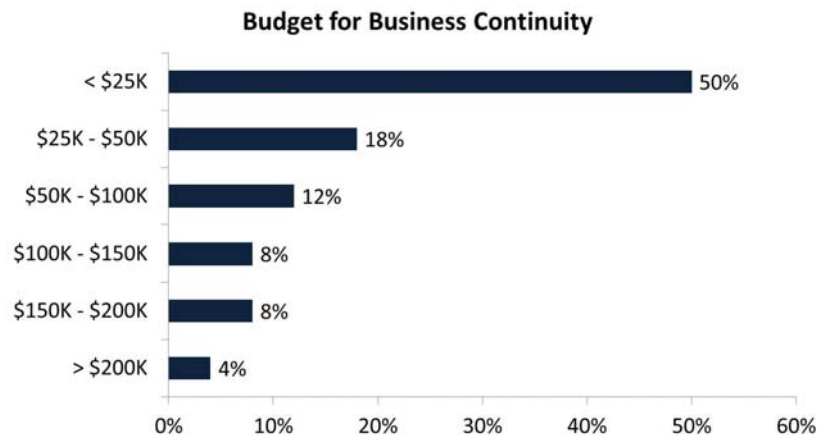


Significant Upgrades Planned in 2012 for Existing Technologies



Business Continuity Planning

Budgeting and spending on business continuity have some correlation to asset size, but exactly half of responders to the survey said they are spending less than \$25,000 annually. A large majority of smaller credit unions (those under \$250 million) reported having a business continuity budget of less than \$50,000 annually. Nearly half of all survey respondents didn't respond to this question, possibly because they are not budgeting for business continuity separately from other expenses.



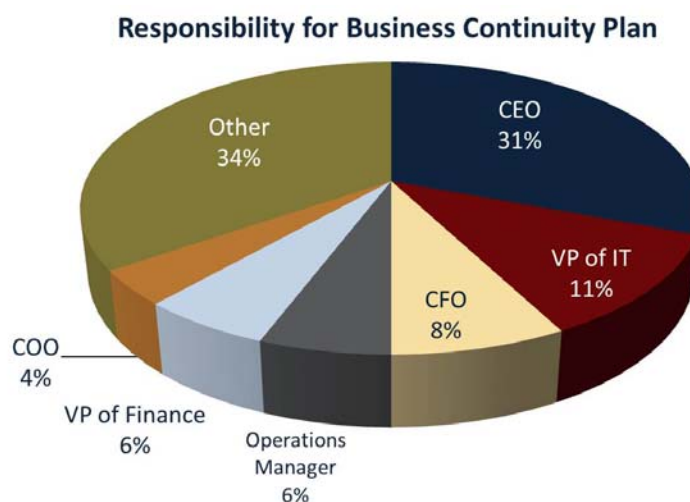
Due to larger budgets, there is a correlation between asset size and the size of business continuity budgets. Larger credit unions (those over \$250 million) typically are spending more than \$50,000, with just over half reporting spending more than \$50,000. Within these larger credit unions, 37% reported having an annual business continuity budget of over \$100,000.

Annual Budget for Business Continuity By Asset Size

| | | Credit Union Asset Size | | | | |
|----------------------------|---------------|-------------------------|---------------|---------------|-------------|--------|
| | | < \$100M | \$100M-\$250M | \$250M-\$500M | \$500M-\$1B | > \$1B |
| Business Continuity Budget | < \$25K | 92.3% | 72.7% | 30.0% | 22.2% | 12.5% |
| | \$25K-\$50K | 0.0% | 27.3% | 20.0% | 44.4% | 0.0% |
| | \$50K-\$100K | 7.7% | 0.0% | 30.0% | 22.2% | 0.0% |
| | \$100K-\$150K | 0.0% | 0.0% | 0.0% | 11.1% | 37.5% |
| | \$150K-\$200K | 0.0% | 0.0% | 20.0% | 0.0% | 25.0% |
| | > \$200K | 0.0% | 0.0% | 0.0% | 0.0% | 25.0% |

Responsibility for Business Continuity Plan Varies Widely at Credit Unions

The person who has the responsibility for planning business continuity at credit unions varies widely, with CEO being the most popular specific position mentioned by respondents. Almost a third of responding credit unions place the responsibility with the CEO, although most of these credit unions were small at under \$100 million in assets. Another 11% of credit unions placed the responsibility with their vice president of IT. Unique positions were the largest area of responses and were placed in the other category, with responses ranging from positions such as business analyst to auditor.

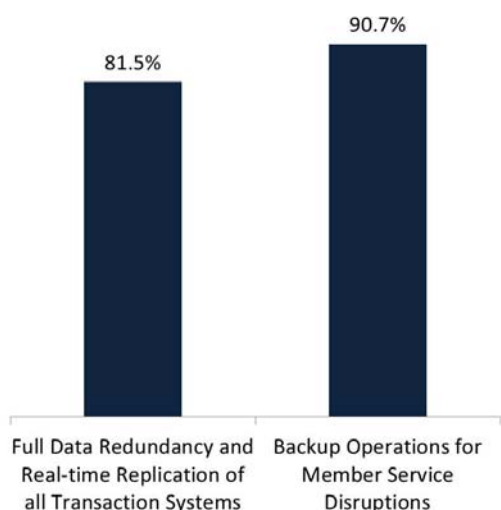


Backup Operations

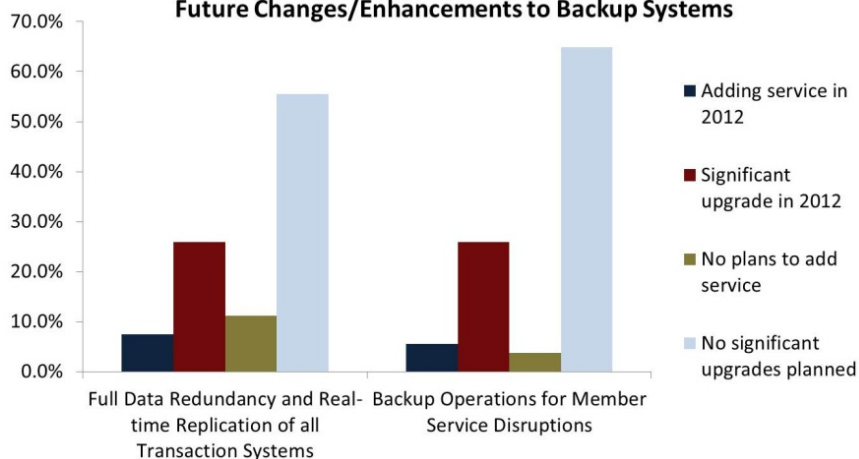
Nearly all of the credit unions that responded to the survey (90.7%) have backup operations in place in case of possible member service disruptions. A large percentage (81.5%) also reported having full data redundancy and real-time replication of transaction systems installed. The difference between the two could be due to credit unions being so focused on their core system or transaction processing that they may be overlooking other areas of member interaction.

The majority of credit unions that reported not having backup operations for service disruptions in place said they are planning on adding this service in 2012. Additionally, 40% of the credit unions that reported not offering full data redundancy are planning on adding it in 2012. There is also a good portion of credit unions that are considering significant upgrades to backup operations and full data redundancy in 2012.

Backup Operations Currently in Place



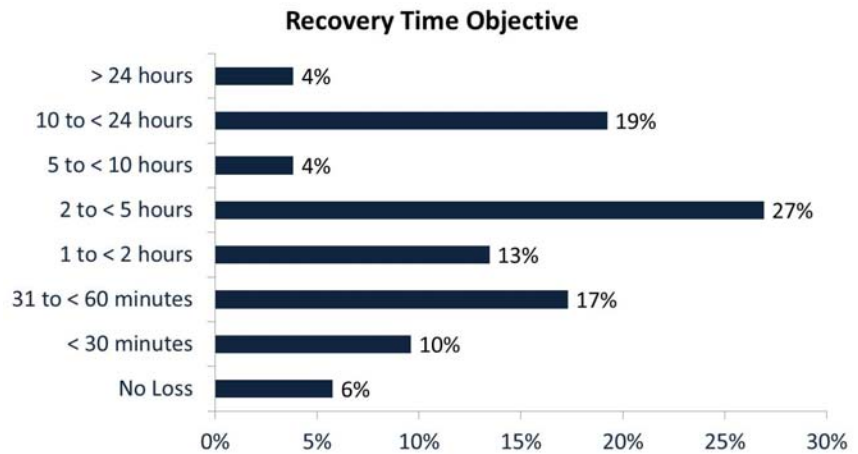
Future Changes/Enhancements to Backup Systems



Recovery Time Objectives

Restoration time is a critical issue for developing back-up systems and appropriate staffing. The recovery time objective (RTO) measures how quickly a credit union can get critical systems back online, while the recovery point objective measures how far back the credit union has to go to restore data. Credit unions will need to balance these two measures with cost and member service needs to arrive at an appropriate objective.

A majority of credit unions (73%) have an average recovery of five hours or less. There were three credit unions, or 6% of responders, that reported that they expect no time lost.



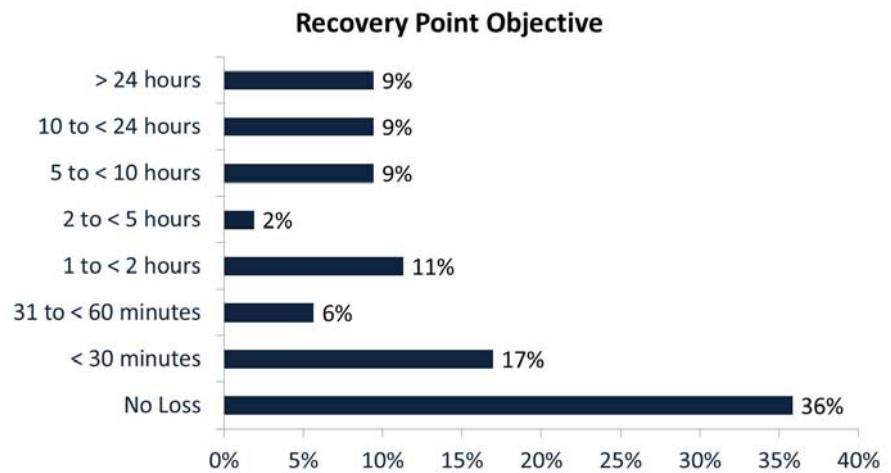
By asset size, credit unions with less than \$100 million in assets have the least tolerance, with the majority having an RTO of less than 60 minutes. 44.4% of credit unions over \$1 billion reported a tolerance of less than 60 minutes. This could show that many of the smaller credit unions are outsourcing these services, while larger institutions have developed in-house solutions.

Credit unions with between \$250 million and \$500 million in assets have the longest RTO, with 40.0% having a recovery time of over 10 hours.

| Recovery Time Objective by Asset Size | | | | | | |
|---------------------------------------|-------------------------|----------|---------------|---------------|-------------|--------|
| Recovery Time Objective | Credit Union Asset Size | | | | | |
| | | < \$100M | \$100M-\$250M | \$250M-\$500M | \$500M-\$1B | > \$1B |
| | No Loss | 7.7% | 0.0% | 10.0% | 0.0% | 11.1% |
| | < 30 minutes | 15.4% | 0.0% | 0.0% | 11.1% | 22.2% |
| | 30 < 60 minutes | 30.8% | 9.1% | 20.0% | 11.1% | 11.1% |
| | 1 to < 2 hours | 7.7% | 9.1% | 0.0% | 22.2% | 33.3% |
| | 2 to < 5 hours | 15.4% | 45.4% | 30.0% | 44.4% | 0.0% |
| | 5 to < 10 hours | 0.0% | 0.0% | 0.0% | 11.1% | 11.1% |
| | 10 to < 24 hours | 15.4% | 27.3% | 40.0% | 0.0% | 11.1% |
| | > 24 hours | 7.7% | 9.1% | 0.0% | 0.0% | 0.0% |

Recovery Point Objectives

The majority of credit unions have a stringent recovery point objective (RPO), which measures how far back in time the credit union will have to go to restore data. No loss is tolerated by 36% of credit unions, while another 17% required a loss of 30 minutes or less. Similarly to RTOs, there are some credit unions that are willing to accept a longer loss with 18% viewing over 10 hours acceptable.



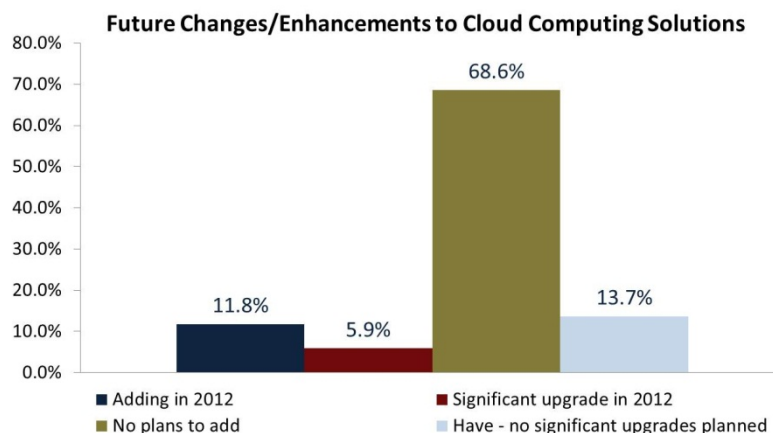
RPOs vary across asset sizes, much like the variation seen with RTOs. Two-thirds of credit unions with over \$1 billion in assets tolerate no loss. The largest tolerance for these large credit unions was between 1 and 2 hours.

Smaller credit unions also tolerate no loss; nearly 31% of credit unions under \$100 million in assets do not tolerate any loss. However, some mid-sized credit unions that have a longer recovery point objective. Out of credit unions under \$250 million in assets, a significant portion tolerates a RPO of over 10 hours.

| Recovery Point Objective by Asset Size | | | | | | |
|--|------------------|-------------------------|---------------|---------------|-------------|--------|
| Recovery Point Objective | | Credit Union Asset Size | | | | |
| | | < \$100M | \$100M-\$250M | \$250M-\$500M | \$500M-\$1B | > \$1B |
| | No Loss | 30.8% | 27.3% | 18.2% | 44.4% | 66.7% |
| | < 30 minutes | 23.1% | 9.1% | 18.2% | 22.2% | 11.1% |
| | 30 < 60 minutes | 7.7% | 9.1% | 9.1% | 0.0% | 0.0% |
| | 1 to < 2 hours | 0.0% | 9.1% | 18.2% | 11.1% | 22.2% |
| | 2 to < 5 hours | 0.0% | 0.0% | 0.0% | 11.1% | 0.0% |
| | 5 to < 10 hours | 15.4% | 9.1% | 9.1% | 11.1% | 0.0% |
| | 10 to < 24 hours | 15.4% | 18.2% | 9.1% | 0.0% | 0.0% |
| | > 24 hours | 7.7% | 18.2% | 18.2% | 0.0% | 0.0% |

Cloud Technology

Cloud computing has received increasing publicity in recent months due to several high profile companies announcing cloud solutions for consumers. Cloud computing involves off-site IT infrastructure management that is immensely scalable and can be accessed securely via the internet. Credit unions can use this technology to back up things such as transaction data or to easily share files or programs across the credit union. This would allow technology infrastructures to be completely outsourced to a third-party.



Nearly 12% of credit unions are looking to add cloud computing solutions in 2012, with another 6% of credit unions looking to significantly upgrade their cloud computing systems this year. There are still a large portion of credit unions, close to 70%, which do not have any cloud computing solutions and do not plan to add them. Many of these credit unions cited data security concerns as why they have elected not to adopt any cloud solution, as well as concerns about loss of control over member data and concerns about costs.

Cost of bandwidth does not seem to be hindering how often credit unions replication/backup on local systems. 83.6% reported that the cost of bandwidth is not limiting their frequency of backup. This low cost of bandwidth has made credit unions confident in their secure local systems, and partially explains why adding cloud systems is not a priority for many credit unions. As cloud systems become cheaper and more advanced as well as more secure, credit unions will be more likely to invest in them.

When considered by asset size, credit unions that are on the smaller side are more likely to have cloud computing systems in place. Credit unions between \$100 million and \$250 million in assets are the most likely to currently have or be planning to add a cloud computing system in 2012. This may be due to the fact that these smaller credit unions have not invested as much in other technologies and therefore have more flexibility in investing in new technologies, plus they also might be looking more aggressively for opportunities for cost efficiency.

| Cloud Computing Future Plans by Asset Size | | | | | |
|--|----------|---------------|---------------|-------------|--------|
| | < \$100M | \$100M-\$250M | \$250M-\$500M | \$500M-\$1B | > \$1B |
| Already have – no upgrade planned | 7.7% | 27.3% | 10.0% | 22.2% | 0.0% |
| Significant upgrade in 2012 | 0.0% | 9.1% | 0.0% | 11.1% | 12.5% |
| Adding in 2012 | 15.4% | 9.1% | 20.0% | 0.0% | 12.5% |
| No plans to add | 76.9% | 54.5% | 70.0% | 66.7% | 75.0% |

About the Business Continuity Section Sponsor: Ongoing Operations

The Ongoing Operations CUSO is a leading provider of business continuity and technology solutions to credit unions nationwide. Initially founded in 2005, Ongoing Operations has expanded to serve hundreds of clients through several world-class data centers strategically located throughout the country. Their services include the web-based CU Recover business continuity planning platform, data backup and replication, connectivity, application hosting, virtual desktops, and more. Learn more at www.ongoingoperations.com.