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Document Summary

Using Technology to Better Manage Credit Union Financial Operations
by Epicor Software Corporation

Published on: September 01, 2005

Type of content: Vendor White Paper

Format: Adobe Acrobat (.pdf)

Length: 9 Pages

Price: Free

Overview:

In today's marketplace, credit unions face competition from community banks, money center banks, thrifts, other credit unions, insurance and brokerage firms, and even large retailers that are expanding into banking services. It seems that everyone wants their finger in the lucrative financial services pie, and thanks to technology, competition can come from anywhere in the world and is just a mouse click away. With competition coming from every corner, credit unions must use technology to their advantage. They can't afford silos of disparate data - they need a strategic view of both their members and their own internal operations.

Banking products and services are commodities, so technology represents a phenomenal opportunity to improve efficiencies, manage costs and streamline operations through automation. This is especially true in the accounting department where a well designed accounting software suite can eliminate redundant effort.

For example, a centralized accounting system will greatly improve analytic capabilities for both the accounting department and senior managers who need access to financial data. Only when financial management processes are consolidated, can senior management truly have strategic insight into their financial position. Plus, productivity and collaboration increase dramatically when employees are not relying on spreadsheets, documents and databases that are scattered across servers and desktops at the credit union. The key concept here is one of 'transparency' which is the ability to quickly show anyone with the need to know that the organization is fiscally well run.



Using Technology to Better Manage Credit Union Financial Operations

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Competition and Commoditization

In today's marketplace, credit unions face competition from community banks, money center banks, thrifts, other credit unions, insurance and brokerage firms, and even large retailers that are expanding into banking services. It seems that everyone wants their finger in the lucrative financial services pie, and thanks to technology, competition can come from anywhere in the world and is just a mouse click away. With competition coming from every corner, credit unions must use technology to their advantage. They can't afford silos of disparate data – they need a strategic view of both their members and their own internal operations.

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CFO's Under Pressure

Chief Financial Officers and accounting departments too often find themselves being squeezed from both sides: internally and externally. Internally, they face growing concerns from the Board of Directors and Chief Executive Officer to deliver timely and accurate financial reports. With the rash of well publicized corporate accounting scandals and accompanying legislation such as Sarbanes-Oxley, fiscal responsibility has taken center stage. Of course, as non-public companies, credit unions do not fall directly under Sarbanes-Oxley regulations, yet this legislation may eventually result in exposure to liability as the regulations may redefine what is considered to be "industry best practices."

Externally, credit unions face scrutiny from the National Credit Union Administration (NCUA) and their examiners, and state examiners for state chartered credit unions. They must show that they are following generally accepted accounting principles (GAAP) and meeting a wide array of regulatory requirements; plus, there is the ever important CAMEL (Capital, Assets, Management, Earning, and Liability Management) rating. In many regards, the CFO's actions and abilities significantly contribute to obtaining the much desired 1 rating on the CAMEL scale of 1 – 5.

It is important to note that the NCUA has refocused their auditing efforts in the past few years. They have migrated from a checklist-based approach to more of a risk-based auditing approach. The examiners look at quarterly Call Data Reports and want to see improved metrics and positive trends in terms of how the credit union is handling risks. Credit union CFOs must be more proactive in this changing environment and integrated systems are key to having information readily available on a day to day basis for their own needs, and a quarterly basis to satisfy NCUA requirements.

In order to cope with these pressures, CFOs need an accurate, flexible system that provides information in real time. In action, this entails having labor-saving software in place that permits them to:

- Remain compliant
- Prove compliance
- Make better use of their funds
- Manage historical data
- Forecast future trends
- Tighten spending controls
- Pay vendors electronically

Four Key Areas for Accounting Departments

To reach these lofty goals, any software solution that the accounting department implements must cover the following four areas.

- Accounting
- Purchasing
- Budgeting
- Reporting

Naturally, a strong core accounting functionality is at the heart of any financial software package. It must offer feature rich ledgers and allow the CFO to build a chart of accounts that matches their credit union's unique organizational structure. Additionally, it needs to automate and consolidate many of the day-to-day tasks that the accounting department must perform. This is particularly important for credit unions with numerous branches because an integrated financial system facilitates communication and data transfers between remote branches and the central office.

A well designed purchasing module can supply multiple benefits to the credit union including: tighter controls on spending, a more granular view of costs, the ability to find duplicate invoices, and longer use of funds. Besides greater effectiveness in procurement and payables, progressive credit unions are looking for even more efficiency gains and cost reductions by implementing electronic funds transfer solutions that pay their vendors via ACH (automated clearing house).

Another critical component in any CFO's technology arsenal is a budgeting module. Without a good budgeting solution in place to help in the development and reporting of budgets, this process is usually very time- and resource- intensive. CFOs must have the ability to track their budget closely, generate reports and analyze it on an ongoing, real-time basis.

Finally, the importance of reporting – or more precisely, the ability to easily pull an extensive variety of customized financial reports – cannot be overemphasized. A robust reporting system can satisfy the need for more and more detailed financial information that various departments and senior managers at the credit union need to perform effectively. Whether it is looking backward for historical data or forward for trends, accurate analytical reports are absolutely necessary.

Core Systems Considerations

The core or host data processing system is the heart of every credit union. However, regardless of the core system vendor, their systems do not inherently provide the depth and breadth of accounting functionality demanded by accounting departments at large credit unions. Only vendors whose core competency is delivering a highly adaptable, totally integrated financial accounting suite can adequately satisfy these complex needs.

That is not to say though that the core system vendor and the financial accounting suite vendor operate in different worlds. Quite the contrary, they actually must work hand in hand to quickly and efficiently bring the daily transactions and other vital data from the credit union's core product into their financial accounting system. In fact, this integration is crucial to improving accounting efficiencies across the organization.

For instance, when a host system generates a daily Close of Business report that contains all of the credit union's member activity, the financial system in use at the credit union should be able to effortlessly import this data and post it directly into the general ledger module. This makes for easy analysis of items such as deposit summaries and helps the accounting department not only with daily reporting, but with quarterly and year end reporting as well.

Choosing the Right Vendor

Because it is such an important decision, credit unions in search of an integrated financial accounting and procurement solution that includes powerful budgeting and financial reporting capabilities must perform due diligence.

When considering various vendors, credit unions must look for the following qualities:

- Well established (long-term player)
- Strong development team
- High quality technical support
- Professional consulting services
- Automated accounting processes
- Numerous modules
- Tight integration across all modules
- Close ties to core system vendors
- Ability to import data easily
- Extensive reporting
- Comprehensive drill-down capabilities
- Credit union experience

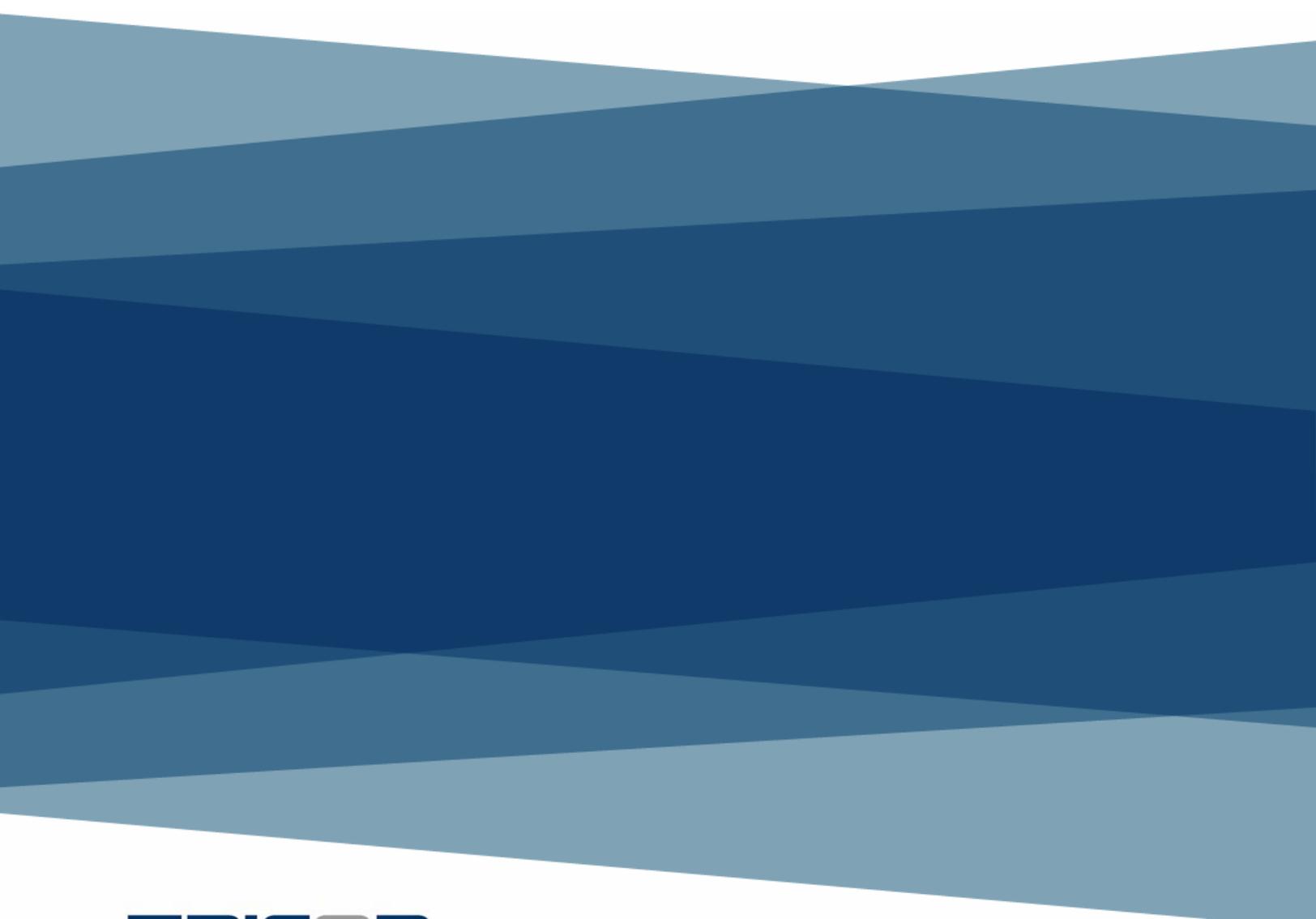
About Epicor

For 20 years, Epicor Software Corporation has been a recognized leader dedicated to providing integrated enterprise resource planning (ERP), customer relationship management (CRM) and supply chain management (SCM) software solutions to midmarket companies around the world. With the acquisition of Scala Business Solutions, Epicor is a global leader in the midmarket servicing more than 20,000 customers in over 140 countries. Epicor boasts numerous credit union clients including: Affinity Federal Credit Union, Eastman Credit Union, and Portland Teachers Credit Union. To learn more about Epicor and its Epicor Financials Suite, please go to: www.epicor.com.

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