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Q/A with Tim Liston of Associated Software Consultants

MBA NewsLink, March 26, 2009. Sorohan, Mike

MBA NewsLink recently discussed **Software-as-a-Service** with **Tim Liston**, president of **Associated Software Consultants**, Middleburg Heights, Ohio.

Founded in 1978, ASC designs and markets loan automation software for mortgage banks, commercial banks, credit unions and community banks. Liston oversees software design, customer support and marketing, and manages 35 employees and a nationwide customer base of 100 lending institutions. He has been involved in the technology industry and with ASC for his entire nearly 30-year career.

MBA NEWSLINK: What is it about SaaS that appeals to clients?

TIM LISTON: First, I think of SaaS mostly as a licensing option. However, it is true that software applications offered under the SaaS paradigm are hosted by third-party managed service providers. So, I'm willing to accept that as part of the SaaS definition.

As clients think of SaaS, obviously the biggest appeal is that it eliminates the big upfront license fee that has traditionally been charged, and spreads it out over time. This does not necessarily reduce the overall license fee in the long term. In fact over several years SaaS license fees may exceed what would have been paid traditionally. But it does eliminate the big upfront fee, which may strain the budget. And it also greatly reduces the risk of a failed project.

The other appeal of SaaS, at least for some, comes from third-party hosting. The managed service provider can pass its economies of scale on to a lender, both by way of its hardware infrastructure and by way of its out-sourced IT staff. Hosted applications offer mobility in that they use the public Internet and therefore offer access by any PC with Internet access. And many hosted applications can leverage the open-source stack, with which managed service providers are often more proficient.

NEWSLINK: And yet, there are some misconceptions about SaaS: that it poses a greater security risk; that an outage could bring their entire system down; that it's difficult to integrate into existing systems; that they don't see sufficient return on investment. How do you address these and other misconceptions when discussing SaaS with a potential client?

LISTON: First, let me address what I consider the biggest misconception that surrounds SaaS: that SaaS deployment is quicker and cheaper than applications deployed in-house. Many of the LOS vendors are perpetuating this misconception.

Generally, there are two major tasks that need to be completed before a lender can go live with a software application. One, it has to ready the application itself, which means customizing it to its particular business needs. And two, it needs to prepare the computing infrastructure on which the application is deployed.

With any new application, these two tasks take place concurrently. They both have to be done before an application can be rolled out. If the business need is rather simple, the application can be customized fairly quickly. But mortgage origination, underwriting, processing, closing, etc. is very complex. Even with business rules it takes time and effort, often a few months. This is the limiting factor, not the time it takes to prepare the computing environment. That's why SaaS-based front-end mortgage systems take as long to roll out as was the case before SaaS.

You mentioned security. Certainly security is an ongoing concern that SaaS-hosted applications must address at least as well as self-hosted applications. Bear in mind first that the SaaS application deployment strategy is not inherently more or less secure than self-hosting, because there's no practical difference. It's the same application either way, only it is located off-premises. Probably the main security benefit of SaaS hosting is that the SaaS application administrators have more experience with securing the application than a lender's own staff. They do it more often and so they are more likely to get it right. Finally, it is not valid to assume that a lender's internal staff are more highly motivated to secure the application than a SaaS hosting provider, because a lender will not choose a hosting provider that it has not thoroughly vetted in any case, and its provider is subject to its ongoing security audit processes.

And it's true that if the public Internet is down, a lender is unable to use its LOS. But these sorts of outages are pretty rare. And with SaaS, on the back end, the managed service provider can offer several types of redundancy, including redundant disk drives, failover servers and the like.

As for integration with existing systems, it is difficult under even the best circumstances. Barring direct application integration at the database level, the issue of application integration is the same whether the application is SaaS-hosted or self-hosted. Since a provider's SaaS application will not share a database with existing systems, the fact that its SaaS application has its own database is generally moot. System integration becomes a question of how many ways a SaaS application may interoperate with existing applications, and this is not affected by hosting methods. Standards support is a key factor. A lender should choose applications that offer a wide variety of integrations methods, such as SOAP and REST web Service integration methods.

NEWSLINK: How does SaaS improve loan origination systems?

LISTON: Again, there are two aspects to consider: the computing infrastructure and the application itself. Many believe that outsourcing the computing environment (hardware, supporting software, administration) saves money, and I tend to agree. But SaaS applications are often "web applications" that run in a browser and I definitely think this is a step backwards when it comes to the daily operation of a front-end mortgage system, and to the ability of the system to be customized to specific lender needs. The browser requirement imposes more constraints on the application than can be discussed here. The good news is that, thanks to the emergence of "desktop virtualization" technologies, traditional client-server systems can be deployed over the Internet just like Web applications. Such systems are fully functional and robust, and now they can be much more easily and inexpensively deployed.

NEWSLINK: What advice would you give to financial institutions that are looking into SaaS?

LISTON: First, and above all, it's not about SaaS. It's about the quality of the application: How well it meets your business needs, and how easy it is to use and to customize. So it pays to carefully examine any prospective system you might wish to adopt. Part of that process should include checking references and asking them about ease-of-use and customization. These days just about any front-end mortgage system can be third-party hosted and administered, including traditional desktop systems. Given that desktop systems are inherently more robust and functional, they might be a better choice for complex applications like a front-end mortgage system.

NEWSLINK: What kind of growth do you see for SaaS systems looking forward?

LISTON: For the time being, there will be two impediments to the growth of SaaS systems. One is of course the current malaise in the mortgage industry. Business is off and many lenders are in hunker-down mode. Second, there are concerns as has been noted and these are not easy to just whisk away. Perceptions take time to change. But understand that SaaS (hosted) deployment does not impose significant restrictions on an application, nor does third-party hosting raise unusual security concerns. And SaaS certainly can dramatically reduce the infrastructure and administrative costs of deployment. So in the long-run SaaS will see increasing acceptance. But it will take time.