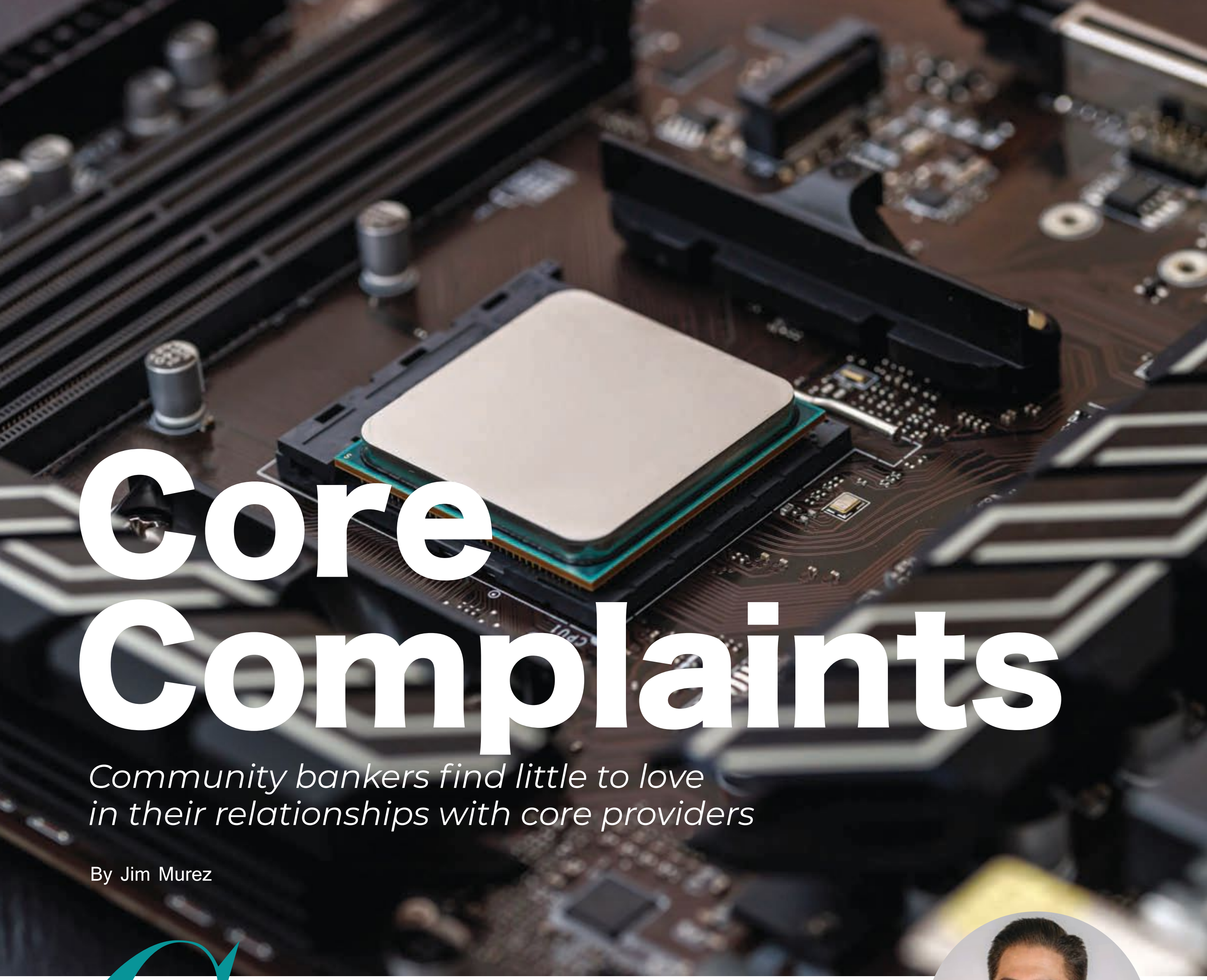

Core Complaints

Community bankers find little to love in their relationships with core providers

By Jim Murez

Trey Maust

Gather a group of community bankers and you'll quickly find their common ground: A bad experience with a core processor. Their complaints might focus on lack of responsiveness, steep conversion or deconversion fees, or brutal terms to terminate a contract early; whatever the problem, the result is frustration.

"Particularly with the larger cores, they have some pretty onerous contract terms," said Trey Maust, executive vice chairman and co-founder of Lewis & Clark Bank in Oregon City, Ore. "If you can analogize it to when you are dealing with a large company, regardless of the industry, and you are one consumer or you're a small business, you have no bargaining power, no ability to change anything. That inability to have influence means you have to sort of take it or leave it."

But walking away isn't an option. Core processors are the engine under the hood, the machine on the shop floor for banks. You might say bankers have a love-hate relationship with core processors. They want and need all of the mobile banking bells and whistles their processor can offer in order to meet customer demand, or at least stay current with the competitor down the street. But everything comes with a price tag — one that often clashes with the budget.

But change is afoot. Smaller core processors are chiseling away at market share from The Big Three — FIS, Fiserv and Jack Henry & Associates. And fintechs are elbowing into the market. They offer bankers more choices, but they also introduce new challenges, especially for bankers who don't moonlight as tech experts.

Switching to another processor introduces risk, not to mention cost. But what about the cost of staying put? Or trying to go the à la carte route using options from a handful of companies? These are questions just about every banker wrestles with when their core contract comes up for renewal. There aren't easy answers.

Right-sizing the provider

Bruce Tellefson, president of Fargo, N.D.-based Valley Premier Bank, has just about experienced it all when it comes to core processors. His bank had been with Fiserv when it first computerized many years ago. It switched to a smaller company "because we felt like a small fish in a big pond," Tellefson said. That company was later acquired by Fiserv, and Valley Premier Bank was back under its umbrella once again.

"They didn't discontinue the product right away, but obviously the customer service changed," Tellefson said. "And then they quit servicing the product. Things were going the wrong direction, and that's why we were looking for something different.

"We'd have to become a Fiserv bank, and we'd already been there."

For Tellefson, dissatisfaction stemmed from feeling powerless. "My perception, and my operations people, we felt like we were so small that we didn't matter," he said.

Fiserv charged Valley Premier Bank fees every time there was an upgrade, sometimes as much as $10,000, Tellefson said. "I'm sure if you're a $500 billion bank, that's no big deal, but at the time we were probably a $75 million bank," he said. "That's a big de al."

Tellefson switched to Data Center Inc. (DCI), which despite being a fraction of the size of Fiserv, offered all of the functions the bank wanted.

"That was a concern: The technology is changing so quickly that they wouldn't be able to keep up," Tellefson said. "But they have, either by developing it in house or forming strategic alliances with another technology company to make sure we do have the products that we need."

Tellefson said he now feels his voice is heard. He knows whom to call when he has a question and works with the same person each time.

"We do feel valued," Tellefson said. "It's nice to work with a core provider that understands where we're coming from, too."

Core oligopoly

When you discuss core processors, the conversation starts with The Big Three, which serves an estimated 93 percent of the market.

Bankers band together to solve core issues

If there is one thing that frustrates bankers the most, it's core issues, said Trey Maust, Lewis & Clark Bank, Oregon City, Ore. Maust is former chair of the American Bankers Association's Community Bankers Council, where he and fellow bankers helped establish a Core Platform Committee, which has been meeting with large and small processors in an effort to help both sides work better together and eliminate some of the pinch points.

The committee, chaired by Julie Thurlow, president and CEO of Reading Cooperative Bank in Reading, Mass., is one year into a two-plus year process, focusing on three primary areas: Contract revisions, access to data and its derivatives, and mechanisms to allow for smoother interfacing with third parties to work on innovation and the free flow of data.

Bankers are just like small business owners, Maust said. They take on several roles to run their bank successfully. That leaves little time to tackle a bigger project such as this on their own.

"We don't have a lot of bandwidth to take on big existential threats or opportunities," Maust said. "I think that's one of the reasons we find ourselves in this situation: Because we're so small. We don't have that market or purchasing power impact or ability to influence, but working together, that's obviously changed dramatically," Maust said.

The committee has already met with the industry's largest core processors. The second phase got underway in early 2019, with the ABA now working with more than 20 small- to mid-tier cores.

"Each of us knows about maybe one or two other cores, but we don't have good visibility to the landscape of what are all the cores that are out there," Maust said.

"I didn't get involved in this to be incremental," Maust added. "I got involved in this to be transformational, and if it's not transformational, then we have failed as a committee. And I firmly believe that, because I don't think incremental progress is sufficient right now."

By Jim Murez

When negotiating with cores, the devil is in the details

Dave Ward of WRK Consulting has worked on the data side of the industry for 35 years, and now consults for banks. He shared his thoughts on how to deal successfully with core providers:

- Read your contract closely, and also have your attorney read your contract closely. "Many bankers do not read contracts," Ward said.
- Make note of auto-renewal dates.
- Negotiate deconversion fees up front.
- Wait until the last month of your processor's fiscal year to negotiate: They'll want the contract in hand that fiscal year rather than the next, Ward said.
- Watch for the phrase "at the current rate." When core providers talk about deconversion or about anything, "there will be a clause in their contract that stipulates 'at the current rate,'" Ward said. "They can make that rate anything they want. What banks should do is say a flat fee for the term of contract."

Bankers need to monitor and keep clean their own data as well. Ward said he has seen processors continue to charge banks for loans that were already paid off that the bank hadn't purged from its records. Until the bank brought it to its processor's attention, one bank was being charged 51 cents per loan for 15,000 loans when it only had 1,500 active loans. "The vendor gave him a large check," Ward said.

By Jim Murez

Fairly or not, the three companies are often lumped together, and many of the concerns around them include high costs (real or perceived) and complicated contracts.

Stacey Zengel

"There are lower cost providers," said Stacey Zengel, vice president of Jack Henry & Associates and president of Jack Henry Banking, "but we help a bank become more efficient. Even though you may pay a little bit more, you gain a lot of efficiency on the back end. And our banks tend to be pretty efficient overall. We work with our customers, but at the end of the day, there's a price you have to get to. I think that our customers by and large feel we price things pretty fairly."

One of bankers' biggest issues with core processors are the high costs to exit a contract early; sometimes having to pay all or a major portion of what's left on their contract. Zengel said bankers are more often seeking to negotiate a way out of having to do that.

"I liken it to if a bank makes a loan, they do expect to get repaid," Zengel explained. "What we're doing with contracts is we make a loan to a customer. There's not a lot of upfront money that's required, but we expect the contract to go to fruition. There has to be something there that is fair to us as a business, and the bank would expect the same thing."

For Jack Henry, the price includes the costs to keep pace with technological changes as well as the need to maintain legacy services that consumers still want, and everything that goes into providing that.

"Part of what frustrates bankers is they love the new technology," Zengel said. "They'd love to jettison some of the old technology, but you've got customers who want to use all of it."

FIS has heard feedback from customers on those topics as well.

"That's a very strong focus for us," said Maria Schuld, a group executive at FIS. "There's a lot of work done in this space in how we simplify contracts. We always want to have a spirit of having our contracts be fair and balanced. That's always the goal."

While bankers often decry high deconversion fees to obtain their customers' data, Schuld said FIS hasn't heard much feedback along those lines.

"We've always tried very hard to ensure that we explain in the contract what a standard deconversion is, and what the costs associated with those are," Schuld said. "I think that's an important piece for bankers to understand, because technology needs change and bankers' needs change."

Maria Schuld

Schuld said FIS is working to simplify contracts and fee structures.

As for the concern about community bankers feeling insignificant when working with a large processor, David McIninch, senior vice president for strategy, marketing and product management for Bank Solutions at Fiserv, said his company segments its customers by size, with one solely focused on community banks.

David McIninch

"They're our bread and butter, and where we've grown up is in the community banking segment," McIninch said. "To suggest there's small fish and big ponds would suggest there's a different focus, and our focus is on community banks."

The small pond

Smaller providers are carving out a bigger chunk in the core processing space, but not without challenges. Bankers are a conservative bunch, and no matter how much they may dislike their current processor, many feel change brings more risk than they may be willing to bear, especially if it's a newer platform.

Despite that, the smaller processors are winning business precisely because of their size.

"We feel like our differentiator is we take care of our customers," said Sarah Fankhauser, executive vice president at DCI. "We send our people out quarterly on our expense. All senior executive management are available anytime for phone calls. Customers get a say in development."

Sarah Fankhauser

DCI is one of a group of smaller providers, along with Shazam, CSI and Modern Banking Systems, gaining traction in the industry. Started and owned by a consortium of banks, the platform for Hutchinson, Kan.-based DCI is geared toward community banks. Fankhauser said DCI's story sells well, but it can still be hard to get banks to sign on, and competition has stiffened with the consolidation in banking.

"The big guys who maybe used to not fight for those community banks and would just let them go are fighting for them now because there's less and less business for all of us every day," Fankhauser said. "So sometimes it's a bigger battle."

One bank that came to Fankhauser had to pay $132,000 to another processor for its data. "Ours would be a third of that, if not a quarter of that," Fankhauser said. "Some banks can't afford to leave even if they wanted to."

Keeping some control

Terence Greenley, chair of County Bank in Sigourney, Iowa, went another route altogether: His bank uses a combination of third-party providers to have more control on its data and processing.

"We looked at providers and all the software we had in the system, and we came to the conclusion that the best solution for us was to remain in-house, and to hang other people's software off our core provider," Greenley said.

County Bank uses Fiserv after it acquired its original core processor, but third-party providers handle a number of the bank's functions. That also lets County Bank keep a firm grasp on its data. The bank made the shift way back in 2005; the process took about nine months to complete.

"We control our data that wa y," Greenley said. "[The core companies] like to give you horror stories that you can't hire the correct people, etc., but you can hire the right people. We don't have to rely on any of the core providers to do it for us."

Greenley hears stories from his peers about the high cost of converting data. "We've kept our costs low and have a comfortable feeling that no one is using our meta data," he said. "The privacy of our customers is paramount."

Core crossroads

Community bankers are encouraged to hire consultants when it's time to negotiate a core contract.

"It's remarkable to me why a bank doesn't get help on a multi-million-dollar contract," said Aaron Silva, president and CEO of the Golden Contract Coalition and president of Paladin fs. "You just have to go in represented."

Silva said bankers have little leverage on their own, and often lack knowledge about pricing.

"They can't negotiate from a position of strength," Silva said. "The suppliers are hoping they guess. That's what they want.

Aaron Silva

"When you sign a contract with one of these vendors and it costs more to cancel the contract than it does to run it, that's not a good deal," he added.

Paladin fs has gathered data on core providers as a resource for bankers who are negotiating contracts. Golden Contract Coalition is a collective where banks can gain negotiating strength through numbers. "Now we can go to them and say, 'OK, let's make a deal,'" Silva said.

And while banks can gain leverage by threatening to leave, Silva said vendors know that only 2 percent of banks ever voluntarily change processors in any given year. "They know that's a 98 percent bluff," he said.

Fintechs, meanwhile, aren't gaining much traction in the core space. Silva said when he speaks to groups of bankers, he asks them to raise their hand if they are willing to be the 15th bank on a new core. "No one raises their hand," Silva said.

Dave Ward has just about seen it all in his 35 years in banking — first as owner of a data processing business and installing networks in banks, and now as a consultant in core processor negotiations at WRK Consulting. He pulls no punches on his thoughts on core processors, comparing deconversion fees to "holding customers' data hostage."

As The Big Three took a commanding share of the market, Ward said, the balance of power began to shift. In the last decade, customers have had fewer options. To complicate matters, systems have become increasingly complex. Banks are unlikely to be able to convert their data manually. When the industry turned to processors en masse, fees escalated.

"The process hasn't changed, but processors found out customers will pay the money to get their data," Ward said. "They know no different."

Staying the course

Like Valley Premier Bank, Investors Community Bank in Chillicothe, Mo., ended up where it started, back with Fiserv after it acquired its smaller core processor. The bank was happy with how the transition went initially, said ICB's President and CEO Charles Bigler, but things got bumpy.

"They sold me a scanning system that could not scan a Missouri driver's license, and I'm in Missouri," Bigler said. "How can you sell me that, and know that on the front end? That's been my argument with them all along."

However, the bank continued to work with Fiserv and was eventually connected with a support tech who is making progress on the issue.

"It's the lost time and the lost effort that gets blown out the window," Bigler said. "There's no compensation to us for having to suffer through it not working.

"They're making a good effort," Bigler added. "It's just taken a lot of fight to get us to this point."

Bigler said making the decision to switch processors is a tough one. The bank opted to stick with Fiserv rather than make a move, summing up the sentiment of many of his community banking peers.

"If the service doesn't work out the way you planned, they have you over a barrel because they have punitive exit clauses in their contracts," Bigler said. "But they all have them, so it's not like you really gain anything from moving from one to the other." ◆