Core Upgrades are the Heart Transplants of Banking – Don't Go It Alone

Things to Consider About a Core Processing Upgrade

Replacing a bank or credit union's core system is not a decision to be taken lightly. A conversion to a new software provider can easily take more than a year, and that is if things go completely as planned on all fronts. As such, it is not unusual for these projects to be compared to heart transplants – very expensive, high risk, and resource intensive. Furthermore, they usually consume significant IT bandwidth that is also needed to respond to a litany of business priorities. As if that were not enough, according to research by Cognizant, 25 percent of core projects fail.

For this reason, SRM advises its clients not to pursue a core system conversion for cost savings reasons alone since, in most cases, a good strategic sourcing manager can get you a competitive price without the pain and suffering inherent in a full replacement. Actual conversions should be reserved for situations where the FI has developed irreconcilable issues with its incumbent or has strategic needs that can only be satisfied through another provider.

An American Banker article published last year raises an interesting, related point. While referencing a study that indicates 70 percent of FIs acknowledge frustration with their core systems, it also suggested that the "big four" providers have achieved such parity that swapping out one for another is unlikely to resolve any feature-based frustrations. This should not be surprising, given the maturity of these platforms.
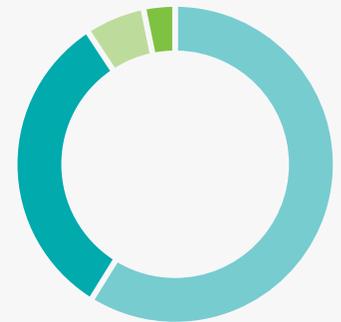
How long?

More than half of banks surveyed say tech projects take at least one year to complete, from preparation to deployment

- Less than a year, 35.4%
- 1 to 3 years, 58.3%
- More than 4 years, 2.1%
- Don't know, 4.2%

Source: SourceMedia Research

"From Good to Just a Little Better" Won't Cut It

It is often said that good is the enemy of great. In the case of core systems, it might be argued that good might be great compared to the other options. After all, the "devil you know" may perform the routine blocking and tackling well enough, and new features are unlikely to win kudos from customers since many of the functions of cores are presented to the customer through middle and front office applications.

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Given the risk-averse and compliance-driven cultures of financial institutions, it makes little sense to gamble a stable system for another that offers limited upside. However, we are seeing the emergence next-generation cores, many of them cloud-based, promising greater differentiation and the opportunity to capitalize on important enablers like real-time information, data analytics, and artificial intelligence.

What We Offer

Few banks or credit unions wish to be an early adopter, especially of new technology that may have only been in the market for a short time and/or has a limited number of users. In the core processing area, we are seeing the development of a classic technology adoption scenario in which everyone watches apprehensively for the first courageous soul to jump into the lake and confirm the water is safe for swimming.

SRM helps banks and credit unions to evaluate the current state of their core processing platform(s) to establish a gap analysis as relates to other newer options in the marketplace. Our firm presents clients with the potential upside and risks to consider for a conversion in relation to the strategies in place across various lines of business. We also facilitate the evaluation of vendors that offer other options of interest and consult with clients on the strength and weaknesses of each. Finally, once a vendor of choice is selected, we engage in contract negotiations on behalf of the financial institution.

Our experience suggests that the largest financial institutions are usually the ones most willing to test out new technology. Their vast resources allow them to mitigate much of the risk from taking the plunge. However, we also see hesitancy in the largest banks and credit unions when it comes to new core technology. That is understandable. After all, few are willing to just "try out" open heart surgery to see if it might work out.

Our regional and community-sized clients tend to prefer the "fast follower" position when it comes to new technology, and that is no different in the core processing space. However, we find that core processing tends to require more up-front due diligence than most vendor-related projects. Thus, it is never too soon to start an evaluation, even if the initial assessment indicates that there is no need for a conversion. The evaluation alone, providing an outside point of view for consideration, can be one of the most valuable services our firm offers.

It is worth noting that there is a general shift in technology that is providing community-sized institutions with options they have not previously enjoyed. Many of our clients in this market segment typically had to wait for the trickle-down effect to reach them in the form of upgrades made by the large companies from which they buy most of their solutions and services.

Bank Core Processor Market Share 2017

Processor	Market Share
Fiserv	37.1%
Jack Henry	17.6%
FIS	16.6%
CSI	6.6%
Finestra	5.1%
Other	16.9%
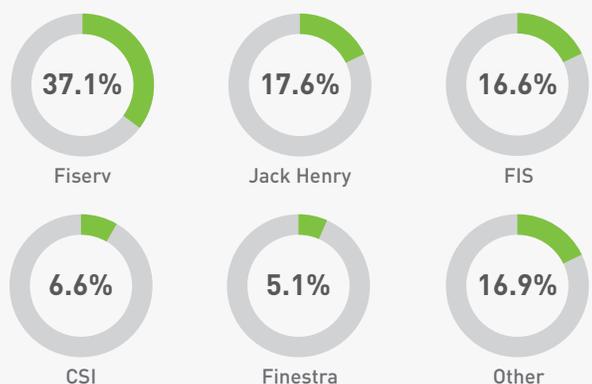
Source: FedFis.com

However, new technology stacks utilizing modern coding languages and API-driven architectures are combining with new distribution models, such as the cloud, to give community-sized banks and credit unions the ability to punch above their weight in the competitive arena. An assessment engagement, at minimum, can help determine if this option is available for leverage. The innovations in the core space – and the reduced complexity often found in the core processing infrastructures of smaller banks and credit unions – could allow them to modernize first, an advantage most have never enjoyed.

Billions of Ways We Can Help You
SRM has helped more than 700 financial institutions realize more than $2.2 billion in value by providing assistance with critical areas from current state assessment, strategy development, gap analysis, implementation roadmaps, vendor evaluation, vendor selection, and contract negotiations.

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