

ICBA COMMUNITY BANK BEST PRACTICES FOR MANAGING CORE PROCESSOR RELATIONSHIPS

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The *ICBA Community Bank Best Practices for Managing Core Processor Relationships* (“*Community Bank Best Practices*”) are designed to help community banks manage the increasingly complex, critical and expensive core processor relationship. Combining the *Community Bank Best Practices* with the *ICBA Best Practices for Community Bank Core Processors*, which is designed to help core processors understand some of the more important aspects of their community bank relationships, will create a successful strategic relationship for community banks and core processors.

Over the years, the community bank-core processor relationship has evolved from a back-office record-keeping vendor relationship to a digital cornerstone of the bank’s relationship with its customers. The community bank-core processor relationship should be treated as strategic given the critical role the core processor has in supporting the bank’s long-term business objectives and continued success.

The *Community Bank Best Practices* address five key areas important to the success of this strategic relationship—**innovation, voice, contracts, account management and support, and compliance.**

Innovation

Community banks are committed to offering customers innovative and secure solutions online, on-the-go, anywhere, anytime and on a variety of devices before they ask and at a reasonable price. Early adoption and speed to market at a price supporting community banks’ growth in net revenue provides community banks a considerable competitive advantage. To achieve this objective, community banks should:

- ❑ Designate a steering committee or individual to drive internal usage of the core system and facilitate awareness and implementation of system enhancements.
- ❑ Participate in core processor strategic product panels and other similar forums to provide input on new products and enhancements and their suitability (pricing and functionality) for community banks and their customers.
- ❑ Stay abreast and evaluate new services and upgrades to core processors’ products.
- ❑ Integrate innovative products and services from the core to your online and mobile channels.
- ❑ Solicit input from key application users and share this information in various core processor forums.
- ❑ Maintain ongoing communication with the core processor relationship manager to share ideas and provide input and strategic direction.
- ❑ Participate in “sand box” proof of concepts offered by the core processor.
- ❑ Participate in the various stages of product development and testing to ensure products are intuitive and easy to learn and use.

Voice

Community banks should capitalize on the various opportunities for providing input to their core processors and hold core processors accountable for rolling out products and services reflective of community bank input.

- ❑ Participate in core processor focus and user groups, national and regional conferences, strategic discussions involving multiple banks, and one-on-one interactions to share perspectives with core processors.
- ❑ Participate in communication and education opportunities using a variety of forums, such as webinars, regional and national client conferences and meetings, on-demand training, routine conference calls, and in-person meetings with the bank's relationship manager.
- ❑ Participate in the various stages of product development and testing before mass implementation.
- ❑ Bank support staff should pursue a leadership role in user groups and other banker forums.

Contracts

Contracts between community banks and their core processors should provide the legal structure for banks to attain their long-term strategic direction and success. To achieve this objective, community banks should:

- ❑ Require the flexibility to tailor core processor contracts to meet their requirements.
- ❑ Pay attention to termination dates and avoid auto-renewals. Avoid contracts with tiered expiration dates because they are difficult to terminate.
- ❑ Pursue contract provisions stating explicitly that customer and organizational data belong to the bank and the bank is granted unequivocal access to this data.
- ❑ Factor in the bank's long-term strategic objectives, such as acquisitions, when negotiating deconversion pricing and other contract terms.
- ❑ Ensure the bank has access to the customer and transactional data and include an option to use your own analytics for identifying and tracking customer activity, profitability and predictive behavior.
- ❑ Request timely and informative aggregate industry trend data and analysis to help stay abreast of marketplace dynamics.
- ❑ Establish service-level agreements with penalties for non-compliance for key areas such as customer service, problem and error resolution, billing disputes, relationship account manager, system downtime, file processing, and compliance—and understand the core processor's service priorities.
- ❑ Ensure the core processor is responsible for keeping customer and bank data safe and secure, consistent with legal and regulatory requirements and cybersecurity standards, and for taking immediate remedial action to address cyberthreats and compromises.
- ❑ Require timely and transparent information about data breaches, audits and examinations.

Account Management and Support

Community banks expect timely, tailored and recurring communication and education regarding new and enhanced products and services, disruptions in service, and technology and marketplace developments. Community banks' ongoing understanding of system capabilities and implementation is vital to their ability to stay competitive and respond successfully to their customers. Community banks also expect experienced, professional and timely client support and problem resolution. To meet these expectations, community banks should:

- ❑ Consider on-site customized training to build broad knowledge tailored to the bank.
- ❑ Understand and utilize the core processor's vendor management program.
- ❑ Ensure that key bank personnel have a good working knowledge of core processor solutions.
- ❑ Assign responsibility for visiting the core processor portal and disseminating the information accordingly.
- ❑ Request annual strategic reviews, and include community bank and core processor senior executives to discuss the relationship's opportunities and challenges and to develop subsequent roadmaps for mutual buy-in.
- ❑ Implement procedures for monitoring core processor compliance with the service-level agreement and any penalty collection.
- ❑ Foster strong relationships with the core processor's account manager, service manager and account support team management. Know who to call. Schedule periodic checkpoints.

Compliance

Regulators expect community banks to engage in a robust analytical process to identify, measure, monitor and control the risks associated with all third-party relationships, including core processors, and to avoid excessive risk-taking that may threaten a bank's safety and soundness. Additionally, community banks must ensure that their products and services are compliant with all legal and regulatory requirements and that any new requirements are implemented within established deadlines. To meet these requirements, community banks should:

- ❑ Ensure the core processor has an acceptable vendor management program, including any third-party service providers, and leverage the resources accordingly to facilitate community bank compliance.
- ❑ Assign staff responsibility for staying abreast of the core processor's vendor management resources.
- ❑ Manage core processor implementation timelines and updates for complying with new regulatory requirements, and request sufficient time for bank testing.
- ❑ Request core processor support for industry initiatives such as Sheltered Harbor and .BANK.