ICBA
Independent Community Bankers of America®

ICBA Core Processor Resource Guide

MAY 2021

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EXECUTIVE SUMMARY

Over the years, the community bank-core processor relationship has evolved from a back-office record-keeping technology vendor affiliation to a digital cornerstone of the bank's relationship with its customers. For many community banks, core processing has become a commodity. Virtually every system can handle checking and savings accounts, IRAs, CDs; personal, auto, mortgage, and commercial loans; and integrations with ancillary solutions, such as payments.

The community bank-core processor relationship should be treated as a key strategic partnership beyond that of a technology vendor, given the critical role of core processors in supporting community banks' long-term technology and business objectives and continued success. Forward-thinking core processors enable early adoption and speed to market at a price supporting community banks' revenue growth, providing community banks with a competitive advantage. Core processors provide essential communication and education regarding new and enhanced products and services, modern technology, and marketplace developments.

Successful core processors adhere to a foundational tenet of their relationship with community banks: listening to and acting upon the knowledge community bankers have related to their unique customer and community footprints. However, community banks ultimately own the partnership with their core processors. Community banks and their core processors should be proactive and intentional in establishing consistent, frequent, and transparent communication to optimize the value of the relationship.

As an essential element in managing the bank's relationship with the core processor, a periodic review of vendor platform utilization can help ensure the bank is maximizing its investments in technology and keeping pace with the market. As the contract renewal date approaches, banks may choose to conduct a vendor comparison analysis, weighing the benefits of making a change against the cost and time commitment of a conversion.

Selecting a core system is one of the most complex and expensive decisions a community bank makes. The ICBA Core Processor Resource Guide provides community banks with a range of critical considerations, including steps banks should take to evaluate their core processor: assessing the bank's business needs and utilization of systems; learning the core processor's philosophies; gauging satisfaction with the current core processor relationship; and evaluating core processor alternatives (including innovation, compliance, and legacy vs. next-generation providers). It also offers insights into negotiating contracts and core conversion project management for banks that decide to switch systems.

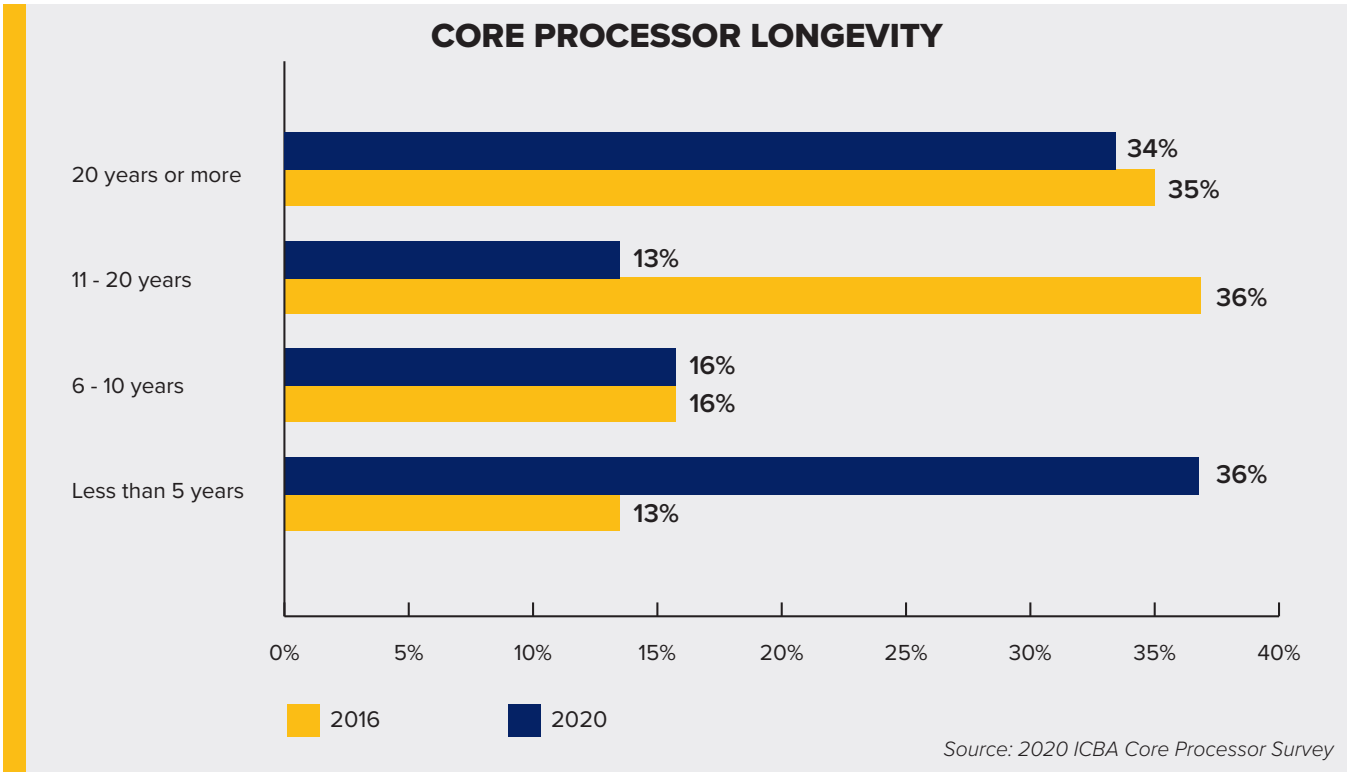
The information provided in this guide is not intended to provide nor constitute legal advice; instead, all information, and content are for general informational purposes only. Community banks are advised to consult with appropriate and knowledgeable legal counsel.

CORE PROCESSOR — A STRATEGIC PARTNER

A core processor is a strategic partner, one that likely represents a community bank's largest expense (excluding salaries and benefits) and influences and sometimes controls its products and technological capabilities. That is why community banks should have a strategic understanding of the total value their core processor brings to the table.

The bank should understand its core processor's strengths and weaknesses, regularly evaluating them to maximize the value of the relationship and the bank's return on its investment. Conversely, a core processor should understand a bank's strategic vision, be very familiar with the bank's business and technical requirements and demonstrate flexibility in adapting to changes in the marketplace to help the bank achieve its goals.

Today, about two-thirds of community banks have maintained a relationship with the same core processor for more than five years, and almost 50 percent have kept the same vendor for more than 10 years, according to the 2020 ICBA Community Bank Core Processing Survey.[1] Further, 36 percent indicated their core relationship was less than five years old, an increase from 13 percent in ICBA's 2016 survey.



Source: 2020 ICBA Core Processor Survey

[1] Conducted to better understand community banks' relationships with their core processors, the 2020 ICBA Community Bank Core Processing Survey was distributed by email to community bank CEOs and technology-related titles. The results are based on 364 responses collected between August 3, 2020, and August 14, 2020. For questions about the survey, please contact ICBA's Noah Yosif at noah.yosif@icba.org.

ARTICULATING YOUR BANK'S VOICE THROUGH PROACTIVE ENGAGEMENT AND PARTICIPATION

Almost by definition, the core processor industry is always evolving. Core processors are constantly investing in expanding their core platforms, enhancing complementary solutions, and integrating new capabilities through fintech partnerships. Given the rapid pace of change, even the nimblest of core processors may find it challenging to keep up with the furious pace of change in the financial technology industry. The executives responsible for lines of business at core providers consider decisions and trade-offs for allocating their research and development dollars, including strategic positioning, differentiating their offerings, customer needs, and client willingness to pay for products and services, balanced against their own P&L responsibilities.

One of the most powerful ways community banks can elevate their core partnership and influence the future direction of their core processor is exercising their voice as a customer; however, many are not taking advantage of the opportunities to do so. According to the 2020 ICBA survey, a little more than half (58 percent) of community bankers participate in user groups offered by their core processor. This is a missed opportunity for the 42 percent of bankers that do not participate in these venues to articulate a voice on current solutions and future developments and to cultivate important relationships across the vendor's organization.

To truly position this key relationship as a partnership, community bank staff should become active participants by attending vendor conferences and webinars and getting involved with user groups. Participating in these activities also offers important opportunities to connect with other community bankers who are utilizing the same core processor's systems and technology.

CLOSING THE TECHNOLOGY UTILIZATION GAP

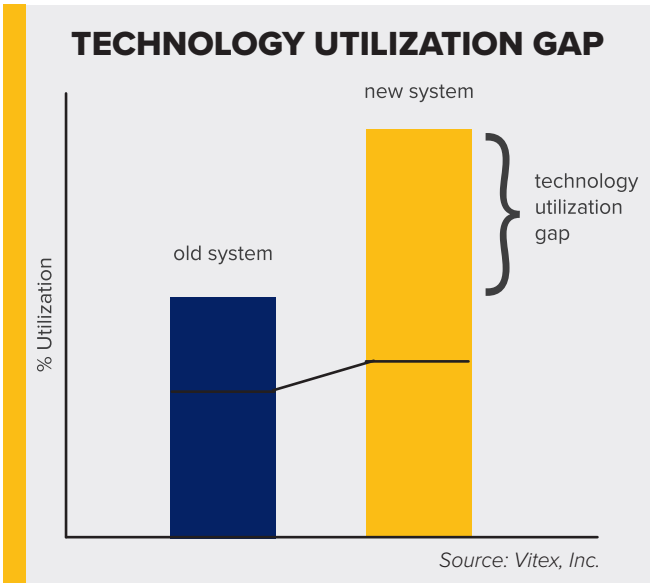
Over time, a core processor's offerings are likely to evolve, including software updates and new modules (and possibly even solutions from vendor acquisitions), offering updated capabilities that streamline processes and increase efficiencies at the bank. Community banks often are so busy with the business of banking and serving their customers that these changes go unnoticed, resulting in a technology utilization gap.

Below are some of the most common reasons that a technology utilization gap may emerge:

- Bank staff lack the dedicated time and resources.
- A lack of training on the full capabilities of the system exists.
- Users and managers are "too close" to the problem to be objective.
- Tenured staff adhere to "the way we have always done it."
- Customers always come first, resulting in project delays.
- Staff turnover dilutes expertise of the systems, or training on the systems is not as complete as the original vendor training.
- Re-engineering is generally not a "core competency" within community banks.
- Internal priorities shift in favor of other projects.

Additionally, community banks may discover the cost to upgrade to newer technologies is prohibitive and may choose to remain on older modules, contributing to a technology gap. In another scenario, community banks shift work from one department to another instead of optimizing or eliminating it. Or banks implement new technology to simply automate old processes rather than change workflows.

The following chart represents the technology utilization gap found in many banks. Most banks can benefit greatly by recognizing that the gap represents significant opportunities, rather than problems.



The illustration shows what typically happens when banks implement a new system or function. Core processors are focused on getting the new system installed and operational. As new enhancements are released, without consistent communication about system upgrades, banks are at risk of using less of the system's functionality. As time passes, community banks find themselves unsure of how to use their systems most effectively.

Core processors report that the longer clients use their systems, the less clients understand about existing and new applications. While newer customers generally use systems more effectively

due to recent training on features and tools, there is over time a decline in maximizing available technology that threatens a bank's ability to compete. In many cases, banks can improve customer service and productivity without buying new systems by focusing on reducing the technology utilization gap.

Banks that do not invest the time to stay informed of system enhancements will not be well-positioned to fully leverage and implement core processor technology into their processes and workflows. They may discover challenges in harnessing improved efficiencies and keeping up with the latest technology. When the contract expiration is approaching, some banks may assume they need to make a change to a new core processor, but they might really need to better utilize their existing system(s).

Banks should regularly schedule a technology utilization review involving bank and the core processor staff to remain informed of how current systems are used. While an ideal technology partner would demonstrate initiative in helping community banks extract the maximum value from their technology investments, this responsibility may fall to bank staff to ensure they remain current on the evolving product and service offerings. Without regularly scheduled communications and dedicated interaction with their core processor relationship manager, some banks may not receive timely updates on enhancements and planned product roadmaps and may fail to succeed in delivering the return on investment typically promised by core processors.

Community banks often bypass this step and immediately focus on revisiting the entire relationship in a core processor analysis. The utilization review should consider all current products and services with an eye toward how they can be improved to meet future needs. The result should be a list of technological requirements. A technology utilization review provides a solid foundation for evaluating a core processor's ability to meet the bank's needs.

A good first step toward improving technology utilization is the assignment of application owners. An application owner is a staff member from a key business line who has specific roles and responsibilities involving application usage. The five characteristics of effective application owners are:

1. **Subject-matter expertise:** They should be from a major business line, such as payments, new accounts, operations, or lending, and not from IT or a technology support function.
2. **Creativity:** They must be creative thinkers who can visualize how improvements in the system can translate into improved efficiency, simplified operations, or better customer service.
3. **Peer recognition:** They should be recognized within the bank as an expert with the system and a source for help and advice.
4. **Management support:** They must be highly regarded by senior management with trusted and valued judgment.
5. **Interpersonal skills:** They must have solid interpersonal skills and the ability to build and foster relationships with the core processor and other departments.

Community banks should begin by designating application owners for major functions, such as operations, lending, or payments. The number of application owners will vary by the size and complexity of the bank. The key is finding the right person with the right skill set to assume the role. In smaller community banks, it may be a part-time role and an extension of the application owner's current position. In larger banks, it may evolve into a full-time position. It is important to clearly define the added responsibilities assigned to application owners. These responsibilities typically include:

- Developing and nurturing personal relationships with appropriate core processor staff. These relationships are invaluable when the bank needs prompt vendor assistance.
- Scheduling periodic check-ins with the core vendor account executive managing the bank's relationship.
- Owning responsibility for organizing annual strategic reviews, including community bank and core processor senior executives, to discuss the relationship's opportunities and challenges and to develop subsequent roadmaps for mutual buy-in.
- Driving and implementing new processes and procedures to take advantage of the new system features.
- Seeking internal user feedback regarding user experiences and concerns and translating them to the core processor.
- Serving as a translator for bank management by determining which features merit consideration and how they can enhance the bank's efficiency and profitability.
- Serving as the primary advocate to management for implementing new functionality as it becomes available.
- Developing and cultivating a peer network with individuals in similar roles at other banks to apply their lessons learned and understand how their banks utilize the system(s). Participation in core processor user groups is an effective strategy to identify contacts at other community banks.
- Maximizing the peer network to advocate for enhancements that shape the core processor's development roadmaps. Numbers make a difference. The more banks press for a change, the more likely the core processor will deliver it.

While the application owner concept is only one tool for improving core processor relations and responsiveness, it is an excellent place to start. The Federal Financial Institutions Examination Council (FFIEC) IT Examination Handbook's detailed project management guidance for managing vendor relationships is an essential tool with which bankers should become familiar.[2]

The technology review process may evolve into a committee over time to address which features the bank will implement when system updates are rolled out. Larger banks may have multiple staff members involved in this process, and there may be a group in the bank dedicated to managing the core processor relationship.

[2] https://ithandbook.ffiec.gov/it-booklets/development-and-acquisition/project-management/project-management-standards.aspx

SHOULD I STAY OR SHOULD I GO? EVALUATING A CHANGE IN CORE PROCESSORS — FIRST STEPS

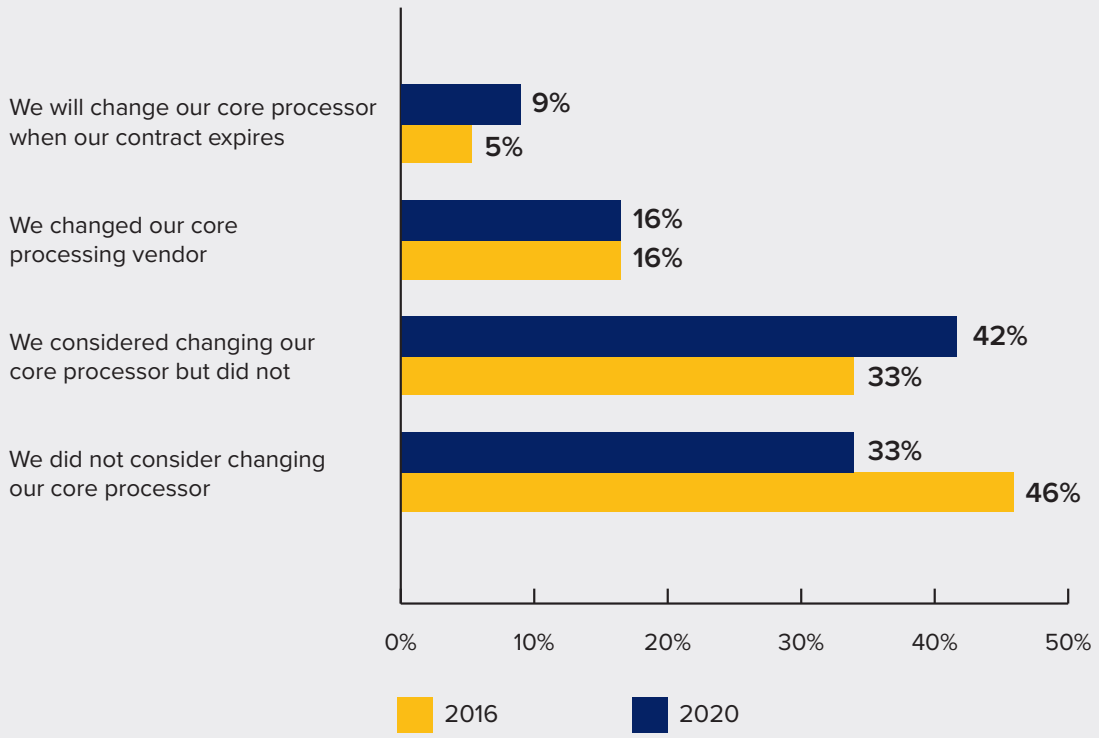
If a bank has done everything it can to optimize its system utilization and maximize the return on its technology investment with its current core processor and its ancillary systems and is still not receiving the capability or service needed to support its long-term strategic goals, then what?

There are various reasons why a community bank might decide to switch core processors. For example, some core systems used by community banks today are essentially at the end of life or are investing very little in research and development. Community banks dissatisfied with the level of support and responsiveness may see a need to explore changing their vendor. Also, a change in the bank's strategy, such as targeting millennial and Gen Z customers by developing more digitally accessible products and services, might necessitate a more feature-rich and digitally native platform. Some community banks may wish to be better positioned for future mergers and acquisitions. Many banks may desire an advanced, nimble platform for financial innovation and integration with best-of-breed ancillary solutions. In some cases, a community bank may choose to convert to a different system with the same core processor to position for future growth.

Keep in mind that a core evaluation is never just about the core platform. The term "core evaluation" is an often-misunderstood term and minimizes the importance, impact, and work associated with such a project. The scope of these projects often extends to several other ancillaries, connected to the core solutions, and can include all technology that is used within the bank. In cases where there is a single vendor approach, where the provider offers a wide diversity of solutions that are wrapped into a single contract, it can be a massive undertaking to unwind all these systems simultaneously.

According to the 2020 ICBA Core Processor Survey, a third of community banks did not consider changing their technology provider, and 42 percent considered making a change but decided to stay with their existing vendor. However, nearly two-thirds of banks participating in the survey intend to review their core processing platform either within the next three years or after expiration of their vendor contract.

INTENT TO CHANGE CORE PROCESSOR



Source: 2020 ICBA Core Processor Survey

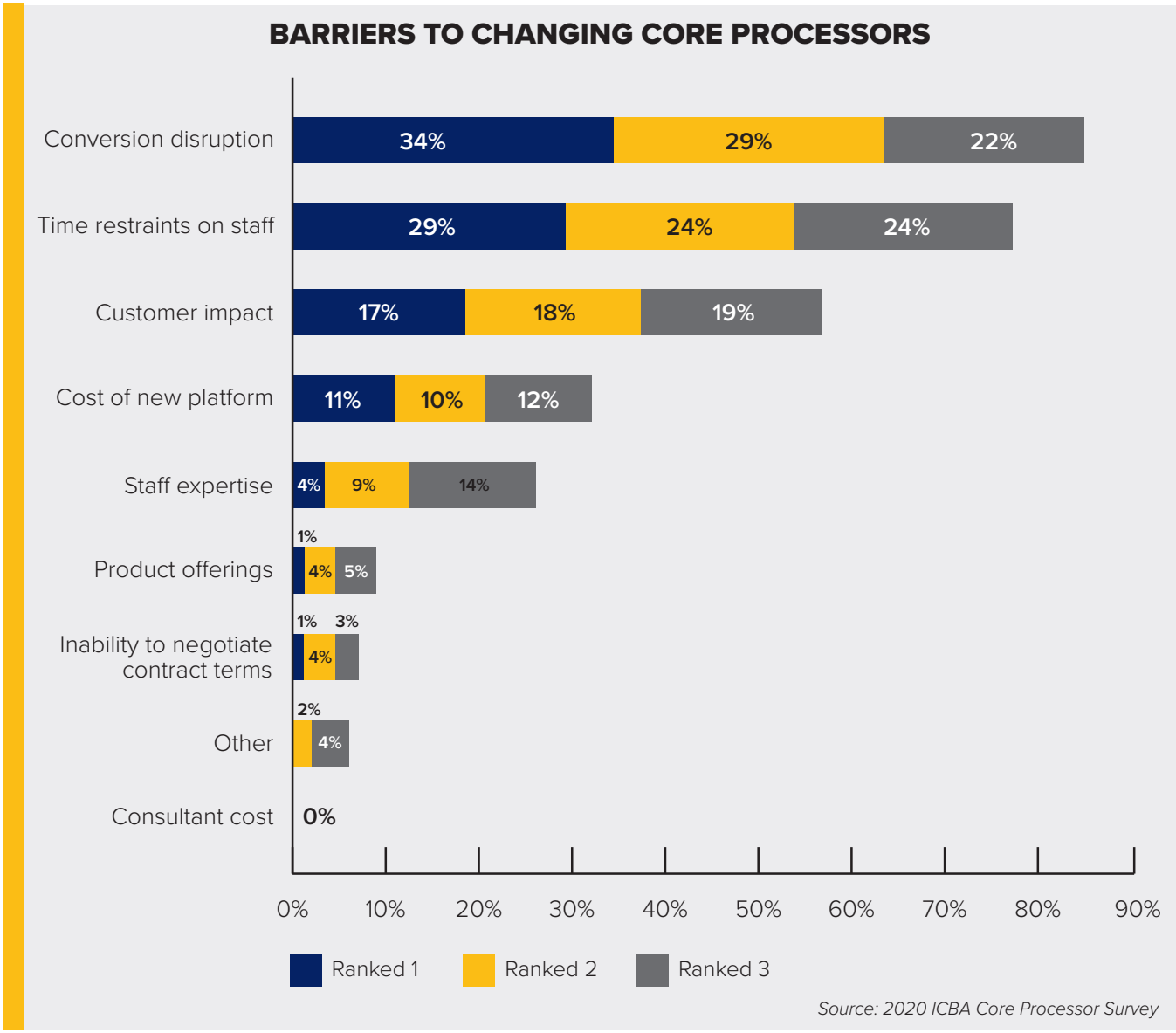
While the percentage of community banks making a change to their core provider remained at 16 percent, the 2020 survey identified a noticeable change in willingness to consider a change of core processors:

- The number of banks that said they would not consider changing their core processing system dropped by 13 percent.
- The number of banks that indicated that they considered changing their core processing system but did not do so increased by 9 percent since the 2016 survey.
- The number of banks stating they will change their core processor upon contract expiration increased to 9 percent in 2020, from 5 percent in 2016.

It is easy to understand why three-quarters of community banks in the latest survey ultimately chose to avoid the investment of time and resources associated with changing core processors. A core conversion has the potential to directly affect customers, employees, and everyone and everything that interacts with the core system. Every customer touchpoint supported by the bank—including telephone, online and mobile banking, ATMs, and bill pay—may be affected. Despite efforts to educate customers in advance, the changes frequently take them by surprise, resulting in a significant number of phone calls from confused, frustrated, and upset customers. Add up the staff time, customer impact, and the price of

the platform, and it is no surprise that ICBA found just 16 percent of community banks reported changing their core processor upon contract expiration.

Conversion disruption and time constraints on staff comprised over 50 percent of the predominant barriers to changing core processing vendors. Customer impact placed a distant third, while nuances such as costs and staff expertise were less of a concern than overall disruption imposed by a potential change in core processing vendors.



Despite the hurdles and choices, banks that are inclined to re-evaluate their core processor relationship and the core processor market should plan to do so well before their contract expiration date. A timely assessment helps ensure that the bank's technology investments support its long-term strategic objectives.

PREPARING FOR CORE PROCESSOR DUE DILIGENCE

In the 2020 ICBA survey, 42 percent of community banks said they considered making a change to their core provider. Before community bankers can begin to ask questions about a core processor, they need to first ask questions about their own institution and understand their own business requirements, strategies, and goals.

Step One: Define Strategic and Tactical Business Needs: Bank boards and executive management should review their strategic plans and discuss markets, customers, and prospects to understand the functional requirements of their different business areas. It is important to determine in advance which solutions the bank wishes to keep with the core processing vendor. Some of the more significant areas to consider are:

- Anti-money laundering
- Business resiliency
- Card services—debit, credit, digital, prepaid and ATM
- Commercial online banking and cash management
- Customer relationship management
- Customer support
- Customer and product-specific profitability functions
- Cybersecurity—IT, information security, and intrusion detection
- Data warehousing and analytics
- Deposit account opening and services
- Document management
- Finance—general ledger, accounts payable, asset and liability management, and credit loss modeling
- Fraud detection and mitigation
- Interactive voice response solution
- Integration to non-core products
- Legal and regulatory compliance
- Loan onboarding from application to closing and booking — consumer and commercial
- Networks and communication
- Online and mobile banking
- Online bill payment
- Real-time payments/real-time banking
- Teller system
- Wealth solutions
- Workflow management

Step Two: Requirements and Technology Planning: While many community banks approach technology to gain a competitive edge, some may make tactical, reactionary decisions about technology. These decisions often are driven by core processor interests, a sudden urgent need (such as equipment reaching capacity limits or contract expiration), or existing technology that has become obsolete. In these cases, executive management views technology as simply another expense.

With a formal technology planning process, however, community banks can begin to think ahead and manage technology investments strategically. As a result, the balance between the proper selection, implementation, and utilization of technology and the ability of banks to accomplish their strategic business objectives becomes crystal clear. In other words, proper technology planning and implementation can clearly help community banks accomplish their strategic business objectives.

Step Three: Develop a Short List of Core Processors and Ancillary Systems: Once community banks understand their business and technology requirements and have crafted their technology strategy, they can begin to develop a short list of promising core processors that have a good chance of meeting their needs. Some banks hire a consulting firm to assist with this decision because the core processor landscape continues to change rapidly.

Some of the items to take into consideration when developing this list of three or four core processors include:

- Full integration vs. best-of-breed: Community banks have two primary choices when it comes to ancillary products: using the offerings of their core processor or buying from another vendor. Both approaches have advantages and disadvantages that must be weighed. Core processors have different approaches, costs, and philosophies on this topic.
- Strategic philosophy: Once a bank knows what it needs, it must figure out which approach to core processing most aligns with its philosophy, resources, and strategy. This involves not just the core platform, but also customer support and ancillary services, including online and mobile banking, card services, ATMs, and e-billing.

Banks using a full integration strategy purchase all ancillary products from their core processor. The benefit of doing this is that the core processor takes full responsibility for making sure the products are integrated and work smoothly together. This approach streamlines vendor management: if something goes wrong, there is just one vendor to hold accountable. It also makes system updates simpler. When customers update their information on the mobile platform, for instance, the core system applies the change across all channels, thereby eliminating multiple manual updates. The downside of full integration is that if a vendor does not fully meet the bank's objectives, the bank is stuck with the core processor's solution. Bankers may find themselves in the position of having to purchase an additional solution from a third party that more closely meets the bank's needs and changes in the market.

The flip side is a best-of-breed strategy, in which a community bank individually chooses each of its ancillary systems. It might use a digital account opening system it really likes from one vendor and mobile banking from another. The advantage of this approach is that the bank can select the best vendor in each category. The downside is that the bank serves as the interface between ancillary services and core processors and is responsible for making sure they work together. While ideally the vendors will work together and share information, there is always a challenge as to who is responsible if there is a problem.

For example, if a new update causes the interface to break, there are now three parties involved: the bank, the core processor, and the ancillary system. Banks need to approach the best-of-breed direction understanding this trade-off and commitment. Absent a relationship between the core vendor and the best-of-breed technology provider, if a vendor cannot test its system with the other vendor when producing an update, it may increase the likelihood of at least temporary problems when new versions are released. Additionally, core processors may prioritize ancillary product updates as a lower priority, costing the bank speed to market and competitive functionality.

As the availability of application programming interfaces (APIs) expands and adoption accelerates, integration capabilities will improve, and the best-of-breed approach will continue to gain traction. However, community banks employing a best-of-breed strategy should account for the extra expense and time necessary to manage multiple vendors when considering pricing.

ASSESSING CORE PROCESSORS — DUE DILIGENCE

Once functional and technological requirements are narrowed down, community banks need to decide the most appropriate core processor and comply with the applicable regulatory requirements for conducting initial and ongoing due diligence.[3]

In addition to agency-specific guidance on managing or outsourcing technology core processors, community banks should also review the FFIEC's IT Handbooks on "Outsourcing Technology Services," "Supervision of Technology Service Providers," and, if applicable, the "Retail Payment Systems" booklets for relevant information on outsourcing retail payment systems and related functions.[4]

Initial and ongoing due diligence is a critical function of the core processor relationship. The Bank Service Company Act (12 USC 1861-1867(c)) provides that any service contracted by a bank to a third party shall be examined as if the bank was providing the service directly. Therefore, ensuring the core processor adheres to the regulatory requirements, and the bank has documentation of its due diligence processes, is critical throughout the contractual term of the core processor relationship. In some cases, banks may elect to hire a third party to conduct their vendor due diligence.

Some common due diligence steps include:

- Request for proposal: The process begins with a request for proposal (RFP). The RFP is an in-depth request list that should include the current configuration for the core system and network, ancillary solutions, current and future interfaces, and new product initiatives. The RFP serves as a foundation for determining the best fit in a technology partner and ensuring the partner can grow with the bank in the coming years. Interview staff to obtain information about all products, what is working well, what needs improvement. The due diligence results will show which features each core processor offers. The RFP offers an opportunity to request detailed responses on areas of particular interest, such as service-level standards, availability of APIs for integrating third-party solutions, and vendor investments in research and development. Banks may also use the RFP to request information on the core processor's audits and regulatory findings. Additionally, the due diligence process should include a request for a core processor's financials to help banks assess the overall financial condition of the core processor. Most vendors will be reluctant to provide requested RFP information without a non-disclosure agreement (NDA) in place, particularly financials and audit reports. NDAs are commonly signed when two companies are considering doing business and need to understand the processes used in each other's business for the

3 See: OCC Bulletin 2013-29, "Third-Party Relationships," 30 October 2013 at https://www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html; FDIC Financial Institution Letter 44-2008, "Guidance for Managing Third-Party Risk," 6 June 2008 at https://www.fdic.gov/news/news/financial/2008/fil08044.html; Board of Governors of the Federal Reserve System Supervision and Regulation Letter SR 13-19, "Guidance on Managing Outsourcing Risk," 5 December 2013 at https://www.federalreserve.gov/bankinforeg/srletters/sr1319.htm

4 The FFIEC IT Handbook booklets are available at https://ithandbook.ffiec.gov/it-booklets/outsourcing-technology-services.aspx

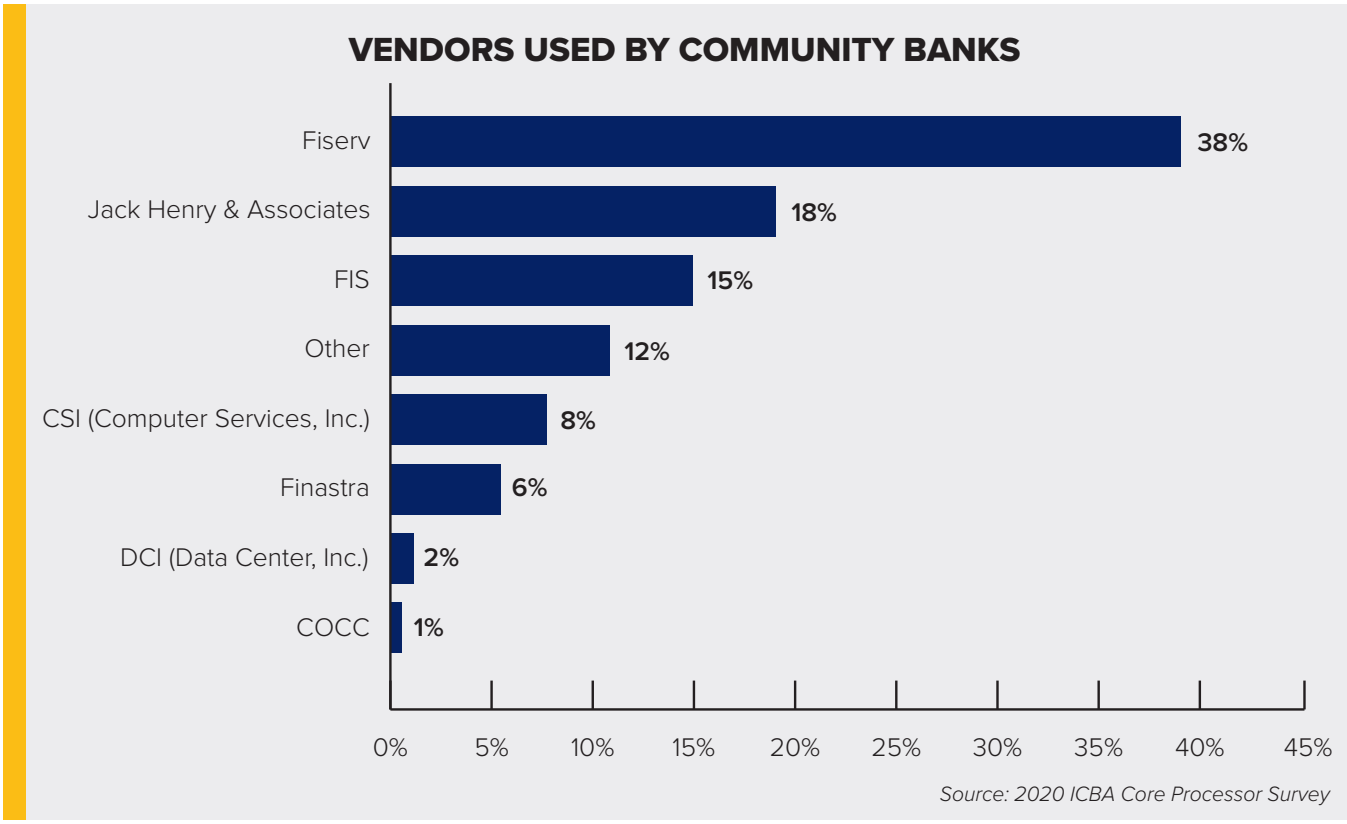
purpose of evaluating the potential business relationship. Because the RFP process may involve disclosure of some of the bank's non-public business information, a mutual agreement is preferred over a single-party agreement.

- Demonstrations and proofs of concept: Extensive demonstrations allow the core processor to show how each feature specifically works and allow the community bank to compare the features with existing processes to gauge whether they are indeed an improvement or could pose a challenge. These demonstrations are critical. Not all features work well for all banks. Plan on a minimum of two days per core processor. Core processors should demonstrate a live system, as opposed to demonstrating their solutions using a PowerPoint presentation. For any product with which the community bank does not feel comfortable, a proof of concept may be requested.
- Focus groups: Community banks can obtain the most value out of demonstrations by creating a focus group of application users. These are the people who use the system every day and know the pain points and efficiencies of the existing system. They should ask about processes they use today as well as any new features the bank is likely to use in the future. The focus group should score each system and weigh the importance of the area to determine a usability score to help make the decision.
- Site visits: Core processor demonstrations can be complemented by site visits, which help banks understand the core processor's operations and ability to meet contractual obligations. The key to core processor demonstrations and site visits is asking the right questions so core processors tell the bank what it needs to know rather than what the salesperson wants it to convey. Site visits should include demonstrations of the onboarding and account-opening processes and a discussion of integrating ancillary systems from other vendors.
- Reference calls: Seek out references from peer banks. Be sure to have prepared questions related to product integrations, financial condition and stability of the core processor, information security, data ownership, and other issues important to the bank.
- Financial analysis: As with any significant investment, community banks can use the due diligence process to review the overall financial condition of the core processor. Regulatory guidance suggests banks evaluate growth, earnings, and pending litigation. The guidance also states that the bank's analysis may be as in-depth as if the bank was extending credit to the core processor. This is particularly true for a core processor because the bank's entire business rests in the financial security of the core processor.
- Cost calculation: This analysis should incorporate more than just direct costs and cover a period of at least five years, factoring in all costs, people, facilities, interfaces, and support. As a community bank becomes more familiar with the core processor's offerings, it can more easily compare pricing—adding and subtracting products and services as needed. It is also helpful to look ahead and factor in potential pricing changes if the bank grows, acquires another institution, or expands business lines. These apples-to-apples comparisons are rarely easy to make due to core processors using different terminology.

CORE PROCESSOR SELECTION — EXPLORING THE DIFFERENTIATING ATTRIBUTES

For many community banks, core processing has become a commodity. Virtually every system can handle checking and savings accounts; IRAs; CDs; personal, auto, mortgage, commercial loans; and integrations with ancillary solutions, such as payments. There are many features and functions for banks to consider when deciding on a core processor. However, forward-thinking core processors enable early adoption and speed to market at a price supporting community banks' revenue growth, providing a competitive advantage. Banks should compare vendors' strategic approaches, consider track records of customer support delivery and technical capabilities, and analyze these elements against the bank's needs, considering other high-level items discussed below.

Legacy vs. next-generation systems: One of the most significant decisions a community bank must make is whether to select a legacy or next-generation core processor. Legacy core processors primarily comprise the "big three"— Fiserv, Jack Henry and Associates, and FIS. Each of these vendors sell multiple core platforms to various customer segments. Together, they hold more than 70 percent of the community bank core processing market share, according to ICBA's survey. Computer Services Inc. (CSI) and Finastra also serve the community bank market, with a respective 8 percent and 6 percent of the market, per ICBA's 2020 survey. Next-generation solutions, such as Neocova and Finxact, also have entered the core processor market.



Source: 2020 ICBA Core Processor Survey

There are pros and cons to consider when looking at the legacy core processors versus some of the next-generation core systems. Next-generation vendors offer cloud-based platforms and tout how easily their core system interacts and integrates with other systems. Despite claims of enabling innovation, some community bankers report these emerging solutions may not offer a complete array of capabilities, which is reflected in their lack of market share. The flexibility of next-generation systems may come with risk, especially if the core processor is a startup with few, if any, customers. New systems create additional risk for banks by potentially relying on unknown and untested entities for critical services.

Understanding the distinctions between core processors and the various platforms they offer requires scrutiny and analysis. Some legacy core systems are known for being inflexible and pose difficulties for banks looking to tie into ancillary or next-generation core processors. While there are similarities between legacy core processors, some vendors have invested in modern systems. Others offer what is essentially the same old system but with a new coat of paint. Some systems with module-based cores designed for banks with more than $100 billion in assets are now sold downstream to community banks. Engaging in frank discussions with similarly situated banks already using the core system can help identify which of these scenarios applies to the vendor in question.

Ability to innovate: Regardless of whether a bank selects a legacy or next-generation system, the ability to innovate is arguably the most important attribute of any core processor for today's community banks. But banks must first determine where they want to be on the innovation continuum. Is the bank satisfied with keeping pace with their market and competitors? Does the bank want to be a fast follower, allowing others to prove the value of new solutions and work out the bugs? Or does the bank aspire to deliver transformative products and services?

As a signal of the growing importance of delivering innovative products to bank customers, an increasing number of community banks are recruiting a chief innovation officer or adding a C-level position that focuses on innovation. (Many community banks and core processors participate in fintech accelerators to remain on the leading edge of innovation, including ICBA's ThinkTECH Accelerator.)

Banks should assess the research and development dollars vendors invest into both the core platform and their ancillary products. Speed to market with affordable innovative solutions are critical for community banks maintaining a competitive advantage in today's disruptive and increasingly competitive marketplace. Responsiveness to requests for product enhancements is increasingly an area of tension between some community banks and their core processors. Additionally, innovation cannot be discussed without an examination of the core vendor's APIs, the magic ingredient that makes integrating with fintechs possible. Each core processor offers a specific approach to "opening up" their solutions to enable banks to connect to fintech solutions. The ICBA 2020 survey reveals that banks are increasingly demanding support for third-party integrations.

Unfortunately, not all API strategies are created equally. And this is where the "how, not what" factor comes into play. It is not enough for a core provider to have an API strategy. It is critical for the bank to understand details about the APIs:

- How is it built?
- How is it deployed?
- How does the vendor charge to use it?
- What other community banks and fintechs are using it?

In the past, some core processors made it costly or difficult to integrate solutions from third-party vendors into the core system. However, core processors are increasingly realizing that this may not be a sustainable business practice going forward. Core processors that offer developer-friendly APIs make it easier to tie in new products and services. This is critically important in an evolving ecosystem where prompt adoption of innovations such as digital solutions, and faster consumer and business payments are increasingly expected by customers. If a bank's core processor has a closed system that prevents a bank from taking advantage of new developments, it will be difficult for the core processor to compete and maintain its market leadership. According to ICBA's 2020 survey, 93 percent of community banks report that additional fees are assessed to integrate new products and services offered by a third-party vendor.

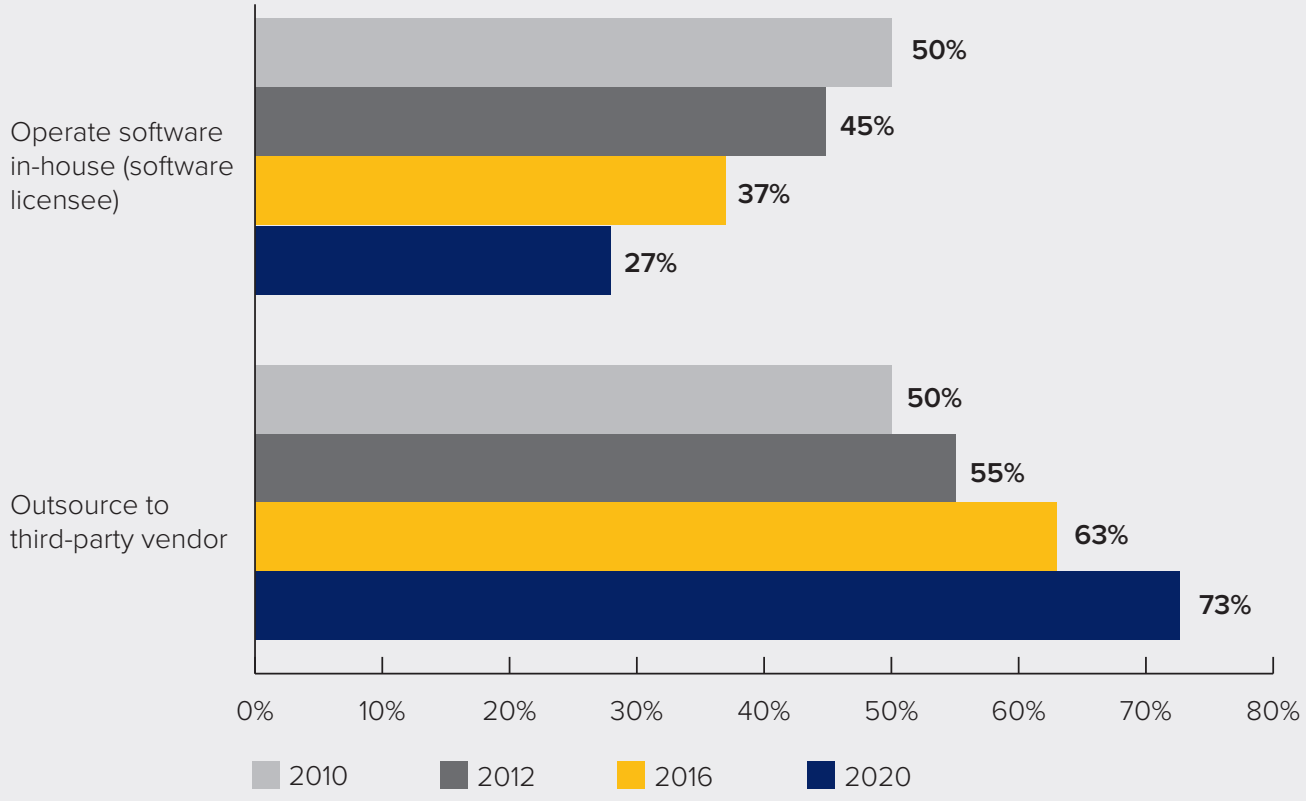
Any discussion around innovation must include a focus on real-time versus batch-oriented transactions and consistency across all delivery channels—ATMs, branches, telephone, online, point of sale, and mobile. Customers expect real-time capabilities, and core processors should be well-positioned to respond to these needs. Community banks are looking at payments hubs from fintech providers as an approach to integrate real-time capabilities and extend the value of data from the core platform.

In-house vs. outsourced processing: There are many factors to consider when deciding between in-house and outsourced core systems, including strategy and resources. Banks that keep core processing in-house have the flexibility to design their own systems for their specific needs, including hardware, software, and ancillary services. They also must deal more directly with third-party vendors. In-house core systems present a large upfront cost but may result in a lower monthly cost—though some of the savings may be negated by employing and retaining a larger, technically advanced IT staff and maintaining the proper physical environment. These banks also are more directly responsible for cybersecurity, disaster recovery, system software updates, regulatory requirements, procurement, and hardware investment and maintenance.

By contrast, outsourcing relieves banks of the challenges of developing and maintaining core processor system updates as well as the direct responsibility of providing disaster recovery—though regulators have made it clear that banks are still responsible for the actions, compliance, and preparedness of their core processors. Budgeting is simpler with core processor outsourcing because costs are predictable, and it is often easier to accommodate unplanned growth or a merger or acquisition. Additionally, less in-house staff is needed to maintain systems.

ICBA's survey shows that community banks are steadily moving away from in-house core processing. Today, 73 percent of community banks outsource core processing, compared to 50 percent in 2010. Community banks also outsource some ancillary products, including online and mobile banking, item processing, payments card processing, e-payments, and financial accounting. The systems most likely to be kept in-house include application technology, digital account opening, e-billing, credit analysis, and loan origination, though many outsource these as well.

SOFTWARE LICENSING VS OUTSOURCING – HISTORICAL PERSPECTIVE



Source: 2020 ICBA Core Processor Survey

Gauging satisfaction: Once a community bank evaluates its needs and sees synergies with a core processor's philosophy, the next step is to assess how well the core system measures up across the organization. While executives typically lead the charge on a potential conversion, some of the most valuable insight comes from the staff using the system every day. Banks should gather a team of business line staff from across the bank to gauge their satisfaction with the existing systems.

Potential questions for each participant include:

- Are you getting the service and information needed to perform your job?
  - Why or why not?
  - What are some examples?
  - What is the impact on the bank's customers?
- Are there system functionalities or business process automations that would make your job (and your staff's jobs) easier?
- Are there products, features, or capabilities that customers are requesting that are not being met today by your core processor? Are there alternative solutions customers are using because that functionality is not provided by the bank (such as P2P)?
  - Has your bank's customer support department noticed an increase in complaints from customers about processes that are difficult?
  - Is there room for improvement in the customer digital experience?
- Are manual workarounds performed because the system lacks functionality?
  - What are some examples?
  - What is the impact on the bank's customers?
  - What is the impact on staff productivity?
  - Would workflow changes lessen or eliminate workarounds?
- Are we experiencing a significant number of system defects or downtime?
  - How many in x period of time?
  - What was the impact on employee resources?
  - What was the customer impact?
- Are we satisfied with the core processor's customer support?
  - Are you getting the support needed? Why or why not?
  - Is the response time reasonable?
  - Is the response accurate and germane to the situation?
  - Are there appropriate channels for escalation when required?

Staff responses will help management ascertain whether the core processor is meeting the expectations of staff and customers. This information, coupled with other potential productivity efforts, helps management determine whether these challenges can be remedied without the investment of time, resources, and cost of a core conversion.

As a result of this exercise, community banks may discover they do not need to switch core systems to resolve many of the common issues. Existing systems likely have the tools to meet bank strategies. Many banks may have fallen into the technology utilization gap and simply require better core processor management to ensure their procedures and workflows keep pace with core developments. A utilization review scheduled at regular intervals helps to ensure the bank is optimizing the technology available to them. The solution may be as simple as asking for a new account representative who is more responsive

or proactive. In some cases, however, the core system may be outdated, so a conversion may be the best alternative.

Compliance: Regulators are clear that while community banks may outsource core processing and other activities, they may not outsource responsibility for those activities. Congress established this requirement in the Bank Service Company Act, and the FFIEC and prudential regulators have established the guidelines and requirements for examining this crucial responsibility. The key takeaway for community banks is that if a bank contracts or outsources a service, the bank will be examined as if it is providing the service itself. Therefore, community banks should proceed carefully with initial due diligence and establish a process for ongoing due diligence and risk assessment of the core processor throughout the contract term. Community banks must maintain records of these evaluations and assessments.

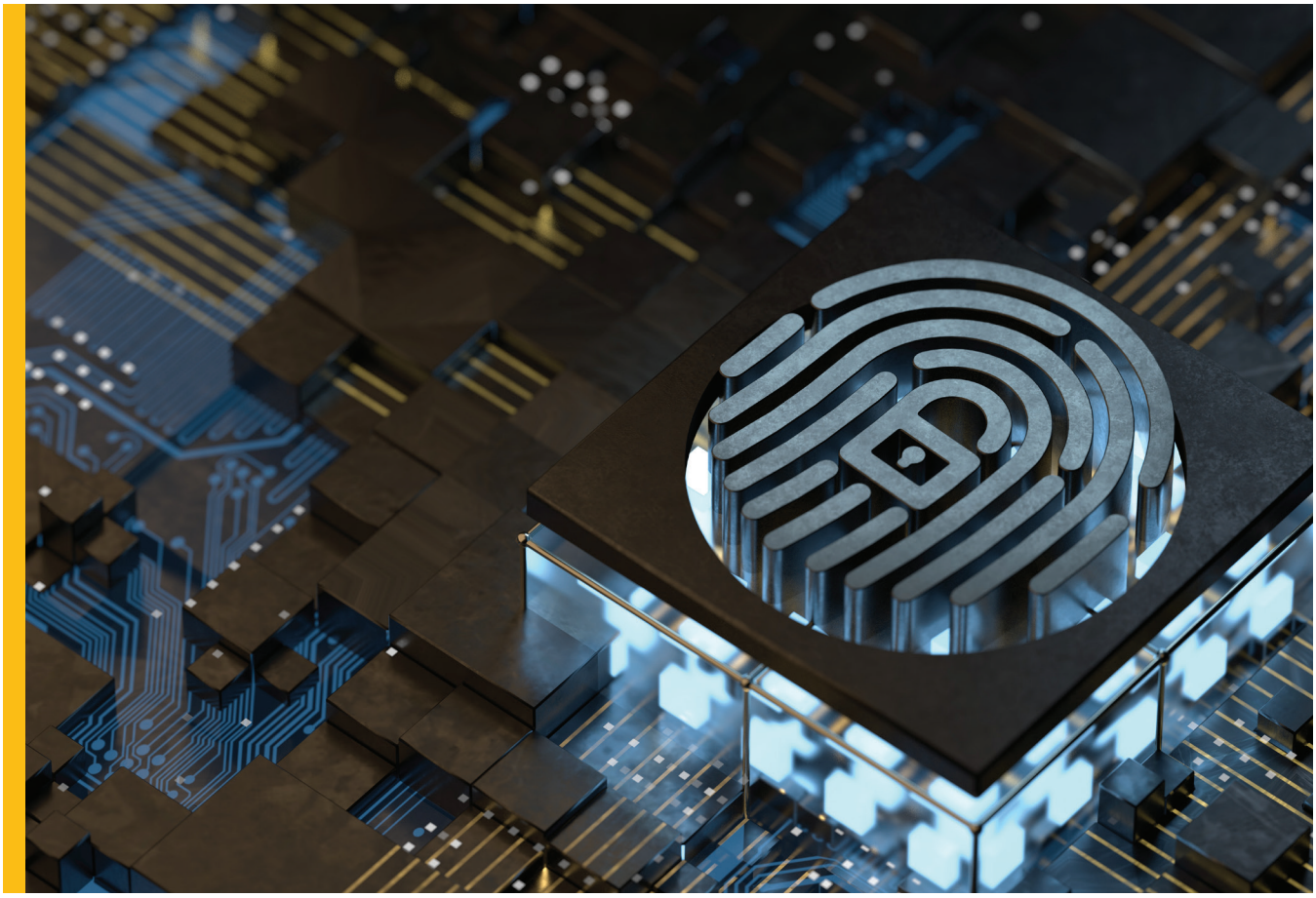
The issue extends past compliance and into risk management. It is essential for community banks to assess the potential risks of outsourcing to a particular core processor. The end goal is to understand the impact a core processor's actions could have on the bank and what steps are necessary to mitigate those risks. The six main risks to consider are:

- Strategic risk. This results from a poor business decision or a decision that does not support the community bank's long-term objectives. For example, a long-term contract may limit a bank's growth opportunities if the core processor cannot keep up.
- Reputation risk. This is the potential fallout from negative public opinion. For example, the bank's reputation may suffer if a core processor prevents it from providing vital services to customers.
- Compliance risk. This is the risk of violating laws, rules, or regulations, or failing to comply with internal policies, procedures, or business standards. For example, failing to keep confidential personal data secure.
- Transactional risk. Improper monitoring of core processors may result in the poor execution of a product or service, opening the bank to transactional risk. Additionally, the core processor may fail to live up to the terms of the contract, resulting in missed transactions and disaster management failure.
- Operational risk. This results from failed internal processes, people, and systems or from external events. Third-party relationships often integrate the internal processes of other organizations with the bank's processes and can increase the overall operational complexity.
- Credit risk. If the core processor does not meet the obligations of the contract, the bank is exposed to credit risk.[5]

[5] FIL-44-2008. Guidance for Managing Third-Party Risk. FDIC. June 6, 2008. https://www.fdic.gov/news/news/financial/2008/fil08044a.html

Data and cybersecurity also fall under this umbrella, posing risks in each of the six categories. Community banks may want to consider reviewing the FFIEC Cybersecurity Assessment Tool for sections relevant to core processor management to ensure the proposed core processor relationship matches the cybersecurity risk and maturity levels of the institution to determine if any adjustments will need to be made resulting from the selection of a particular core processor.[6]

When selecting a core processor, it is essential to understand whether a core processor under consideration has the resources, tools, policies, and procedures to help the bank continually assess, monitor, and mitigate these risks. Community banks should expect their core processor to demonstrate that it takes risk management and compliance seriously by following new developments, delivering reports, and respecting the bank's regulatory requirements.



[6] The FFIEC Cybersecurity Assessment Tool is available at https://www.ffiec.gov/cyberassessmenttool.htm

PRIVATE CLOUD VS. PUBLIC CLOUD SERVICES

PRIVATE CLOUD

There are two flavors of private cloud. One is where data and software services are hosted and run by the bank in a traditional bank-owned in-house data center. The second is where a bank has partnered with a third-party service provider, like a core provider, and has outsourced this function along with software services.

In-house

An in-house private cloud, also known as an in-house or enterprise cloud, resides within a bank's physical data center. This can be a good option for banks that already have data centers because they can use their current infrastructure. Advantages of an in-house private cloud include: it can provide the highest level of bank control, offers an increased level of security, and shares few, if any, resources with other organizations. Additionally, in-house private clouds are often built on a small scale with a few data centers located regionally. The disadvantage is that the bank is typically responsible for all management, maintenance, and updating of data centers. Over time, servers and other infrastructure, such as firewalls and switches, will need to be patched, upgraded, or replaced.

Outsourced

An outsourced private cloud, also known as a third-party service provider, resides within a vendor's hosted data center where the bank's data is accessed through firewalls and offered with other services and software, such as core software. This can be a good option for banks that want to avoid having to patch, update, or replace servers, software, and other infrastructure, such as firewalls and switches. Updates typically are performed as a service by the third-party service provider, for an appropriate fee. Additionally, outsourced private clouds are often built on a national scale with several data centers across the United States. Disadvantages of the outsourced model may be a decreased level of bank control and more complex security considerations because data centers are managed by a third party and resources are shared with other organizations.

PUBLIC CLOUD

The difference between an outsourced private cloud and a public cloud is in ownership of the infrastructure. In an outsourced private cloud, the third-party service provider owns the data centers. In the case of a public cloud, a cloud company such as Amazon Web Services, Microsoft Azure, or Google Cloud owns the data centers. Both banks and third-party service providers can rent space, bandwidth, and processing power from public cloud companies and use it to host their servers, software, and services.

One possible advantage of this scenario is the bank or the third-party service provider can choose an option for the cloud provider to manage the public cloud hosting solution. Infrastructure is offered as a service, which tends to reduce complexity and may reduce time to deploy new services, removing much of the burden for patching, upgrading, and replacing servers, firewalls, switches, and other infrastructure components. Additionally, large public clouds are often built on a global scale with dozens or hundreds of data centers across the world.

Disadvantages include a decreased level of bank or third-party service provider control as well as more complex security considerations because data centers are managed by the cloud companies and resources are shared with many other organizations, including other third-party service providers that may resell the public cloud's services bundled with the third-party service provider's software and services.

VENDOR MANAGEMENT DUE DILIGENCE

The FDIC InTREx IT Examination Procedures[7] instruct examiners to consider the following elements when evaluating bank management's due diligence efforts in selecting key vendors:

- Financial statements (e.g., annual reports and SEC filings).
- SOC reports.
- Experience and ability to implement and monitor the proposed activity.
- Business reputation, status in the industry, and sustainability.
- Qualifications, training, and experience of the company's principals and staff.
- Strategies and goals, including service philosophies, quality initiatives, efficiency improvements, and employment policies.
- Existence of significant complaints, litigation, or regulatory actions against the company.
- Ability to perform proposed functions using current systems or the need to make additional investments.
- Use of other parties or subcontractors by the third party.
- Scope of internal controls, information security, privacy protections, and audit coverage.
- Business resumption strategies and contingency plans.
- Knowledge of relevant consumer protection regulations.
- Adequacy of management information systems.
- Insurance coverage.
- Eligibility to perform as a service provider given the existence of any outstanding enforcement actions against the third party, and the requirements of Section 19 of the Federal Deposit Insurance Act[8] that may apply to institution affiliated parties.
- Record retention and maintenance practices.
- Identification of potential conflicts of interest.
- Impact of proposed contracts on the third party's operations and financial condition.

In the end, no core processing system will fully meet every requirement for every bank. Every system involves compromises. The key is to find the system with the least compromises—and then negotiate for the best pricing, terms, and performance standards.

[7] FDIC, Information Technology Risk Examination (InTREx), Development and Acquisition, July 2017

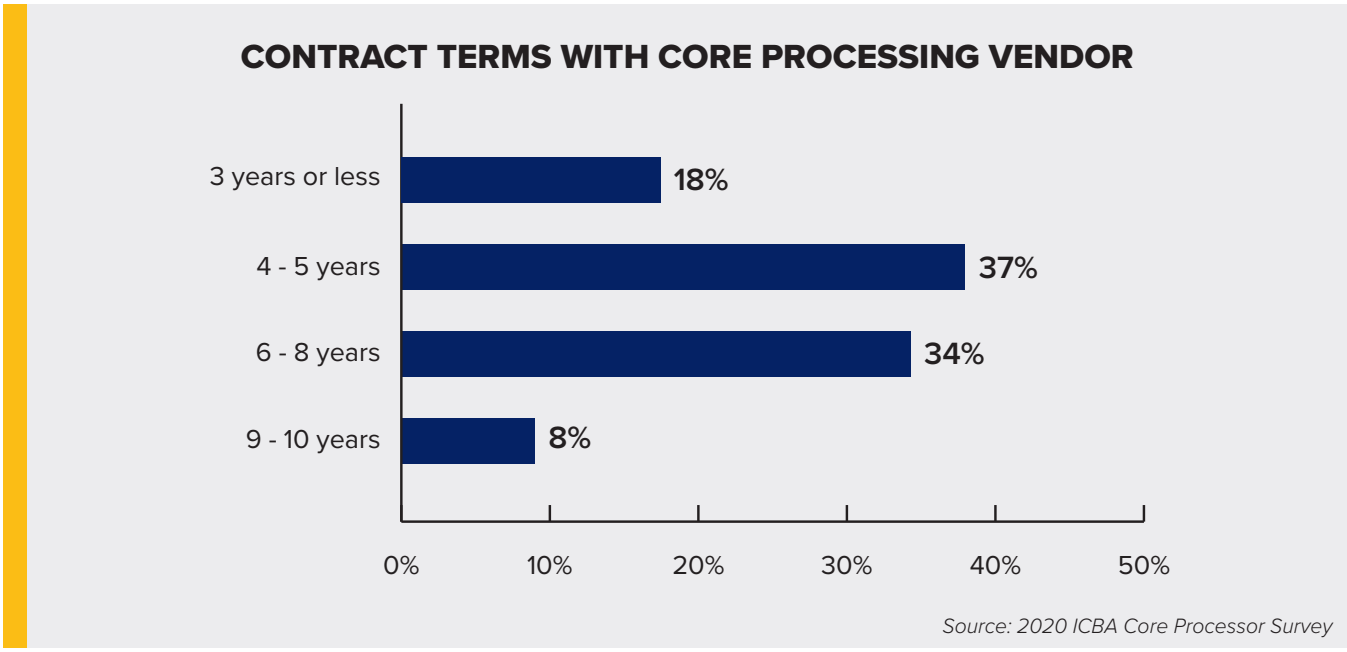
[8] https://www.fdic.gov/regulations/laws/rules/1000-2100.html

CONTRACT TERMS AND NEGOTIATIONS

One of the final steps of the process is negotiating the contract(s). Community banks must negotiate relationships with technology providers that bolster their ability to compete and flourish. Contracts must clearly define terms, with reasonable fees for services and access to bank data, and provisions that assign liability to the technology partner when it is responsible for failing to meet service-level standards or is unable to deliver the contracted services.

Community banks are increasingly vocal that contracts with core providers must include a fair and transparent pricing structure. However, negotiating a fair contract that delivers the most value for the bank is a discussion that goes far beyond pricing and enhancing the bank's business proposition with strategic sourcing. It is also about managing risk by securing terms and performance standards that benefit the bank. Many community banks engage legal counsel before executing a new core processor agreement.

Most community banks have mid-term length contracts with their core processors between four to six years. Only 8 percent of banks have a long-term contract with their core processor for more than eight years. Some core processors have recently begun to offer more flexible terms for contractual relationships, including subscription-based models. Community banks that are contemplating these new contact term arrangements are advised to carefully weigh all the commitments, requirements, and implications (such as the possibility of exposure to more frequent price increases) against the benefit of more flexible length of agreements.



Source: 2020 ICBA Core Processor Survey

One of the biggest mistakes community banks may make is failing to properly manage the timeline, allowing a contract to automatically renew without renegotiating pricing or terms. Expiration dates should be closely monitored so that there is ample time to evaluate the options, conduct due diligence, and implement the system, if necessary. Community banks should know precisely when their core and ancillary solutions contracts are due to expire.

Many contracts have an auto-renew clause six to 12 months prior to the actual expiration date. Banks may consider providing notice in advance of the notice deadline to signal to the vendor that the bank intends to conduct due diligence on options ahead of the renewal. If the bank does not provide written notice on or before that auto-renew date, it could be locked into another 12 months or longer-term with that provider.

More important is understanding how much time the bank will need to properly renegotiate the existing contract or review other possible core solutions that may be a better fit. Whether the bank is looking to simply renegotiate the current contract(s) or intends to initiate a full new core evaluation project, the ideal time to begin reviewing core processor options is 18 to 24 months before the existing contract expires. This provides approximately eight to 12 months for due diligence and another six to 12 months for implementation. Institutions that wait any longer to begin the process may run out of time to make a move, severely limiting their options and diminishing their pricing negotiation leverage if they do not have enough time to perform a core conversion.

Some core processors may allow for an extension while the bank's contract is being negotiated. However, this may be a temporary solution, and terms for an extension may not be favorable for the bank.

Some critical areas to address in a contract are:

- Data ownership and access. Community banks need access to data generated by their customers both for analytical and deconversion purposes. Community banks should always discuss data ownership, standard reporting tools, and access with a core processor prior to executing an agreement. Depending on the contract terms, bank and customer data may be the property of the core processor or the bank. Paying a fee to the core processor each time a customized report is requested can be costly over the long term. Banks should ask vendors to explain any distinction between accessing data residing in the core platform and data analytics tools that analyze the data and are offered as ancillary systems. Acquiring the bank data from a core processor at the end of a contract for a core conversion can be costly in terms of both dollars and staff time. This consideration often plays an outsized role in influencing a community bank's core processor decision to keep their existing vendor or make a change.
- Open infrastructure. Open core infrastructures allow banks to innovate more efficiently, reducing the effort and expense of fintech and third-party integrations with the core platform. APIs are also the preferred industry standard for allowing bank customers to securely share their personal

financial data with authorized third parties without forfeiting usernames and passwords. Access to core data through APIs enables community banks to offer enhanced customer experiences while limiting the scope of data a customer-permissioned third party can access.

- Performance standards. Located in the service-level agreement (SLA), these are measurable benchmarks community banks can monitor to ensure adequate performance standards are met. The SLA should also have penalties, either financial or termination, if the service levels are not met. Without penalties, the bank has no leverage and there are no consequences for the core processor in the case of non-performance. Both performance standards and penalties are negotiable.
- Duration of contracts. Community banks should think about contract length from a pricing and strategic standpoint and take into consideration the likelihood of a future merger or acquisition. Be wary of auto-renewal contracts, however. Banks with auto-renewals should, at a minimum, have a reminder system in place so that the contract can be evaluated 18 to 24 months before the auto-renewal date.
- Alignment of contract terms. Community banks should implement an internal process to centrally manage and align core processor and ancillary contract expiration dates so that all contracts are coterminous. This is crucial for several reasons. First, it is common for the execution of an ancillary contract to extend the life of the entire core processor relationship (the core as well as other ancillary services). Second, if a bank ultimately decides to end a relationship with a core processor, coterminous agreements can help reduce early-termination penalties and deconversion fees. Third, this provides banks with more negotiation leverage because it can be easier to move to a new core processor.
- Termination of contracts. These key provisions should address early termination fees, exit fees, and length of notification so there are no surprises later. In ICBA's survey, 76 percent cited early termination fees for cancelling products or services.
- Deconversion fees. One of the most difficult scenarios a community bank may face is being boxed into the current contract and solution by confusing or unquantified deconversion fees. These terms should be clearly defined, so if the bank decides it is time to migrate to a different core solution, it will understand the financial implications of "de-converting" from the current system. These fees are over and above any potential early termination fees or liquidated damages if the bank is looking to migrate before the end of the current contract term. Eighty percent of participants in ICBA's survey reported additional fees required for deconversion.

Other areas to consider in contract negotiations include:

- Scope of product and service: Are all the services clearly defined? Does the bank understand what is included in the agreement and what is not? Although this might seem intuitive, many banks are surprised when they learn during implementation that all the features and functionalities in the demo are not included in the cost or agreement.

- Security and confidentiality: Do the agreements have language covering the core processor's responsibility to comply with current legal and regulatory requirements? What about future regulatory requirements? Is the core processor required to comply in a timely manner? At what cost?
- Audits: Does the agreement give the bank or its proxy the right to audit the core processor's operations? What about information regarding audit results performed by the core processor's auditor?
- Business resumption and contingency planning: Is it included in the contract? What are the core processor's business continuity plans should it become inoperable due to a natural disaster or cyberattack? What is the timeline for resuming the bank's services?
- Subcontracting (including offshore outsourcing): Can and does the core processor do it? Do you care or want to restrict it? Does this create additional risk for the bank? May the bank continue working with a subcontractor for a service should it part ways with the core processor? Will the core processor continue to support the product if the bank contracts directly with the subcontractor? Be mindful of regulatory guidance on this activity.
- Costs: Is pricing transparent? Are all costs clearly identified and defined? Are consumer price index (CPI) increases reflected? Are termination fees and deconversion fees included and defined? Are there hidden charges? Are existing costs built in to require the processor to aid in the event of a breach?
- Software ownership and licensing: Who owns the software? How long is the term of the license? What happens at the end of the term if the bank still wants to use the license? Does the bank need to rebuy it? What happens if the core processor is sold? Can the bank escrow the software?
- Dispute resolution: If the core processor is not meeting the agreed upon service levels, what happens? Are there penalties for non-performance? Can the bank withhold an invoice payment without penalties if it is disputed?
- Assignment: If the bank has a change of control, can the license be transferred to the acquiring bank? Can the bank terminate the agreement if the processor is acquired?
- Reporting: Are robust reporting capabilities included in the system? Are there additional costs?
- Data ownership and analytics: Does the bank or the core processor own the customer data? Are there additional costs for data requests? Is data access easy for the bank? Are there any restrictions on the bank's access to customer data?
- Patent infringement: If the bank receives a patent infringement demand letter based on its use of a core processor's product or service, does the core processor accept legal liability for resolving infringement allegations? Are the agreement limits of liability adequate?

CHANGE MANAGEMENT FOR SWITCHING CORE PROCESSORS

A core conversion is far more than an IT project. It is a complex, time-consuming, and resource-intensive strategic project that touches every department and business line at the bank and has the potential to seriously disrupt bank and customer activities if not handled carefully. No wonder so many community banks make it all the way through the core processor due diligence analysis only to choose to stay with their existing provider. A core conversion typically takes anywhere from 12 to 18 months of planning and implementation. That makes conversion project management a critical activity.

Senior bank management must be involved from the onset. It begins with senior management designating and empowering a conversion project manager and developing a detailed conversion project plan. The bank's project manager should be able to bring together stakeholders from across the bank while working with the core processor's project manager to keep the project seamless and on time.

The plan should be high-level enough that team members do not become bogged down with small details, but specific enough that it provides a clear path and identifies all "critical path" items. Additionally, the plan should include routine meetings to provide progress updates, address challenges, and make appropriate decisions. Basic elements of a successful conversion project include:

- Conversion team: An interdisciplinary team made up of individuals from across the bank who can be assigned various tasks is crucial to success.
- Hardware changes: Complete any required hardware changes or network upgrades before the core conversion, if possible.
- New procedures and workflows: A new system can mean a new and more efficient way of doing business, but only if the bank has a team in place to implement new procedures and workflows to take advantage of the system's capabilities.
- Testing: Establish a testing plan to ensure the system is operating consistent with expectations and requirements and to identify any problems. Banks cannot test too much.
- Internal communications and training: A communications plan should be deployed to keep relevant staff apprised of key information about the conversion. Do not skimp on training, especially for customer-facing employees who will be inundated with questions after the conversion. Have a schedule for training staff, picking up the pace as the conversion date approaches. Everyone should know what the new system does and how to do it.
- External communications: Typically, customers do not pay attention to core conversion communications until the conversion is complete. Banks need a communications plan covering all their channels to deliver the messages repeatedly and consistently. Be sure to have a plan for responding to the increased volume of customer inquiries after the conversion is complete.

- Compliance disclosures: Community banks also need to be aware of common pitfalls, especially when it comes to compliance. Areas of concern include deposit and loan documents. Be sure to double-check to make sure the forms comply with the Truth in Savings Act (Reg DD) and the Truth in Lending Act (Reg Z) and any state regulations. The Bank Secrecy Act and anti-money-laundering systems may also change with the core processor and require special attention.
- Implementation: Community banks and core processors should be in sync regarding all conversion and implementation schedules and activities. The responsibilities of all parties should be clearly defined, including guidelines for additions, deletions, or changes. While the goal is to meet all deadlines, there should be a plan for renegotiation or extension guidelines if needed. Someone should be responsible for ensuring the core processor is delivering everything that is needed.
- Post-conversion: Consider contracting with the core processor to have onsite support for frontline staff, because the core conversion team on site will be working with the core implementation team. Document a project "retrospective" debrief after the conversion is completed and apply relevant lessons learned for future projects.

CONSULTING SERVICES

Selecting a core system is one of the most complex and expensive decisions a community bank makes. However, it is also one of the most strategic and should support a bank's long-term business and technical goals because it directly impacts the bank's customer experience. The length of a contract combined with the challenge of switching to a new core processor makes it essential for community banks to make a well-thought-out decision that will best support their long-term strategic and financial issues.

Some community banks engage a professional services firm to assist and guide them through the process of selecting the proper core processor system. The role of these professionals should be to determine, with an experienced and unbiased eye, which processors and systems offer capabilities best suited to meet the business needs of the bank. These include:

- The long-term strategic objectives of the bank.
- The bank's current market and competitive environment.
- The ability of the bank's staff to adapt to a new core platform.
- The history of the core processor(s) and their ability to provide long-term strategic and operational support.
- The long-term effort and expense required of the bank to maintain or develop interfaces, products, services, and information.

Consultants can also aid in contract negotiations, using their market knowledge to help banks secure agreements with beneficial pricing and terms. Prior to engaging the services of a consultant, community banks are advised to conduct due diligence by checking references with other community banks that have had experience with the consultant. Remember, a consultant making recommendations on the bank's most critical technology decision should receive the same scrutiny as other vendors that deliver critical services to the bank.

CONCLUSION

A community bank's core processor can be a strategic partner that helps the bank achieve its long-term business objectives—but only when it is carefully selected and implemented with an eye toward delivering modern technological capabilities, ensuring innovative customer experiences, streamlining processes, and boosting efficiencies. The established and interconnected nature of core processing technology compounds community banks' reliance on these capabilities to stay competitive, efficient, and viable.

Making the most of this critical relationship involves going beyond the status quo to fully explore all the options when a core processor contract approaches its expiration date. Community banks need to take the time to assess their own business needs, their satisfaction with their current core processor, and other marketplace options. Only then can they fully understand if they are deriving enough value from their current arrangements.

While most community banks may ultimately choose to stay with their current core processor, this exercise helps to ensure that a bank is using the core platform that best supports its strategic objectives, facilitates future growth, and provides the most advantageous terms and pricing possible.

ACKNOWLEDGEMENTS

ICBA would like to acknowledge the contributions of the following for their expertise and guidance:

Kevin Tweddle, CPA, Senior Executive Vice President, Community Bank Solutions, ICBA
Tina Giorgio, AAP, President and CEO, ICBA Bancard
Rebecca Kruse, Executive Vice President, Operations, ICBA Bancard
Charles Potts, Senior Vice President and Chief Innovation Officer, ICBA
Deborah Matthews Phillips, AAP, Senior Vice President, Payments and Technology Policy, ICBA
Joel Williquette, Senior Vice President, Operational Risk Policy, ICBA
Randy Roth, CEO, Vitex
Eric Devine, President, Vitex
Nick Perfido, Executive Vice President, Vitex

APPENDIX

ICBA IT OUTSOURCING RESOURCE CENTER
https://www.icba.org/advocacy/our-positions-a-z/technology

VENDOR CONTRACT CHECKLIST
https://www.icba.org/docs/default-source/icba---general-(secure-members)/it-outsourcing-toolkit/vendor-contract-checklist.pdf?sfvrsn=3ef23117_4

REGULATORY RESOURCES

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