



REGAIN CONTROL OF YOUR BUSINESS AND TECHNOLOGY STRATEGY

How community banks can transform,
stay relevant and competitive

For banks of all sizes, technology has moved from the back office to take center stage as a prime determiner of business success. In the digital age it is impractical to separate technology from the business — the two are inextricably linked.

However, for many smaller banks, the technology that delivered success has become a barrier to progress. Many grapple with unwieldy technology stacks that often mimic business processes from an analogue age. And they struggle to comply with a growing body of complex regulation and compliance that increases the cost of business. These challenges are often compounded by inflexible processing contracts that prohibit change. Community banks need a fresh and advanced approach with service agreements that are clear, transparent and flexible.

This paper considers the processing requirements of community banks in the context of their role as exemplars of relationship banking and their crucial contribution to the U.S. economy. While it is highly desirable that community banks continue to serve their loyal customers, they cannot do so without more flexible processing arrangements. Like all businesses, they must respond to the challenges and opportunities of the digital age. If they do not act soon, other more agile players will. This is not just a possibility, it is inevitable.

The encouraging news is that modern technology also enables new business models and a core transformation can be implemented as a service bundle that includes pay-as-you-go pricing. In practice this aligns processing costs with business success and can reduce if not remove the need for immediate capital outlay.

Independent research¹ suggests that smaller banks want simplified pricing for processing services, and many have already shown interest in bundled services.

FIS ClearEdge is our response to this evolving market need. It gives community banks access to world-class technology and service on fair and flexible terms. We believe this heralds a new dawn for community banks and presents a unique opportunity to regain control of the business strategy, which is inseparable from the technology strategy.

We hope business and technology executives at community banks read our paper and are encouraged to join this critical discussion.

Why community banks matter

Although community banks are not easily defined, they are readily characterized by what they do. In contrast to large banks that rely on sophisticated technologies and computer models to manufacture and deliver financial products, community banks offer traditional financial services to businesses and families in local communities and rely on their core processing and technology partners.

With decisions made locally, often on the personal knowledge of customers' credit standing, this is relationship banking at its best. Community banks are a critical component of the financial fabric of the U.S.

However, like all banks, community banks are subject to disruptive forces. In addition to competition from larger banks, new market entrants such as fintechs or neobanks offer a tech-first approach to financial services that cuts processing costs across the board. Many community banks cannot or will not be able to compete with those market entrants on price alone.

Unfortunately, many community banks also remain locked in to legacy systems and unfavorable vendor contracts making them strategically disadvantaged. While some are already considering new more advanced processing solutions, those that are not must do so soon. Why?

¹Boston Consulting Group

The age of disruption

Disruptive market and economic forces are reshaping the global banking landscape and community banks are no exception. Customers are better informed and demand better experiences more than ever. Shopping for financial products has never been easier and the internet does not recognize geographic boundaries. Many community banks have a higher cost structure than larger banks due to a lack of scale, lack of resources, and they must find ways to innovate, adapt and become more competitive.

The technology imperative

As technology moves from the back office to be at the front, back and middle of all that a bank does, many community banks are stranded with outmoded processing models.

While a nimble, human approach and personal service may go some way to offset a technical shortcoming in the short run, it cannot make up for a growing technology debt and inflexible cost structure. To remain competitive, every community bank must find a partner that gives them more control of their processing and associated costs.

Vendor lock-in and punitive contracts

Although many community banks depend on partners for technology support, most remain on legacy core platforms that are unable to adapt to a digital world. Many are trapped by the technology that once delivered success but is now compounded by long vendor contracts and complex service agreements with expensive liquidated damages.

At a time when investment needs to be directed toward innovation, it is instead consumed by regulatory compliance and running the bank. Community banks need access to technology with easy, flexible service contracts.

The need to transform

Against this backdrop of change, community banks must transform to stay relevant and competitive. Advanced technologies and service models can offer a road map to modernization that's aligned closely with business objectives. So where should this start?

The evolving role of the core

In most cases, bank transformation begins with the core platform. Although there is no single definition of core, it is generally accepted as the "system of recordkeeping"² used throughout a bank to support its core business. In practice, the core system is the beating heart of the bank that supports all essential activities: customer accounts and associated activities, including deposits, payments, transfers and interest applied.

It is hard to overstate the importance of a bank's core, and its role is constantly evolving. Even in a small bank, the core is expected to support an increasing number of functions and channels. In the beginning there were just branches, then others were added: call center, online and most recently, mobile. Increasingly, customers wish to access these channels on a range of touchpoints and devices: ATM, online, tablet, iPhone, so all channels must offer a consistent user experience choreographed in real time.

² Description adopted by Celent throughout the report, *The Modern Core Banking System, 2019, North American Community Bank Edition*

Modern technologies and service models can offer a roadmap to modernization that's aligned closely with business objectives.

Recent research³ identifies specific areas where legacy core systems in community banks consistently inhibit progress:

- Time to market – Difficult to introduce new products to market in less than one year, due to code restrictions on functionality.
- Scalability – Many solutions require middleware or manual workarounds to support new limits or requirements, which reduces efficiency and increases costs.
- New channels and omnichannel – Difficult to introduce and support new channels and offer a consistent customer experience due to a lack of integration tools, such as open application program interfaces (APIs).
- Regulatory compliance – Banks of all sizes must comply with legislation that is growing in volume and complexity. Regulatory compliance is major cost of doing business and is the same for banks of all sizes.
- Outdated architecture – Many small banks run on monolithic technology stacks that are difficult to change, expensive to maintain and do not offer the benefit of modern methods.
- Limited deployment models – Most legacy technology cannot support modern deployment models, such as cloud.

Like all banks, community banks must invest for a future that is digital and real time. Some small banks have already begun this process and are pursuing progressive or vertical renovations in preference to the alternative of a rip-and-replace core renovation.

In practice, most small banks are already inundated with projects to run the bank. Replacing a core platform is a daunting prospect that can be risky, expensive and complicated. So, given the need to act, what should they do?

Taking back control

Community banks need to partner with a core processor that gives them control of their core processing, not taking control away. They can learn from the experience of larger banks who have implemented platforms that give more power back to the organization. Many large banks realize that a long and costly IT process stifles innovation and kills many new products.

A modern core can insulate a bank from change in technology and enable it to become more customer-centric, agile and competitive. But bank transformation is about much more than technology and should:

- Offer a consistent, engaging customer experience across all customer touchpoints with the ability to move seamlessly between channels
- Signal the end of speculative investment in technology and align spending with business growth and success
- Boost innovation and participate in the evolving financial ecosystems that is increasingly open and real time
- Streamline and simplify regulatory compliance and facilitate a RegTech approach
- Deliver a new bank culture that puts the customer at the heart of everything the bank does

Community banks need to adopt modern technologies that support change and innovation; they also need vendor contracts that are transparent and flexible. An independent report⁴ suggests that smaller banks should start digital transformation sooner rather than later. So how should they proceed?

³Celent, *The Modern Core Banking System, 2019, North American Community Bank Edition*

⁴Forrester, *Global Banking Deals Survey, 2019*

The need for partnership

Bank transformation is never easy but it's a lot easier with expert help. With the right partner, community banks can transform to stay relevant and competitive. In the digital age, vendors must provide core technology that is open and flexible so the bank can innovate, build and maintain its competitive advantage. The service agreement must embrace flexibility and freedom to do things differently, while ensuring that the processing core is protected.

However, they must choose partners wisely to avoid vendor lock-in and other pitfalls.

Modern technology can empower a bank to do more but there are many other important considerations, such as regulatory compliance, banking knowledge and practical experience. Forrester advises bank to "Avoid allowing the fintech hype to confuse the selection process"⁵ as it's easy to offer state-of-the-art architecture at the cost of narrower functionality and an overall lack of business knowledge.

In practice, every bank modernization is a unique transformation journey. All banks start out from differ locations and have unique milestones. But it is also an ongoing journey, so a modern banking platform must be flexible and future-proof. In practice it must also facilitate:

- Customization at the user level to minimize the burden on IT
- Simple upgrades keep pace with change

- Easy integration with other platforms and a growing financial ecosystem that is increasingly open
- A digital-first approach to banking that revolves around the customer

However, the biggest challenge facing community banks is to cross the cultural chasm that exists between a closed legacy environment and an open digital world with infinite possibilities.

How FIS can help

FIS has unparalleled experience of bank transformation. We are helping many of the world's top banks adopt a digital-first approach to business that boosts innovation, promotes customer centricity and builds a bank that is future-proof.

Now smaller banks can benefit from our continual investment in world-class technology, unparalleled industry expertise and transparent approach to business. We believe your business should be controlled by you, not your partner.

FIS ClearEdge offers an easy, transparent and flexible route to core transformation. It bundles the solutions you need now with the ability to scale seamlessly and accelerate growth. And, with simplified contacting, pricing and implementation, it's the future of banking, now.

To learn more about how FIS' community banking solutions can help you meet the unique challenges and opportunities of today's world, [click here](#) or contact getinfo@fisglobal.com

⁵ Forrester, Global Banking Deals Survey, 2019

About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.

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