# Boutique core providers carve niche with customization, responsiveness

bankbeat.biz/boutique-core-providers-carve-niche-with-customization-responsiveness/

March 12, 2021

The realities of the core processing industry are stark: The industry's Big Three — Fiserv, Jack Henry and FIS — account for the vast majority of the market. The remaining wedge is divided among a range of smaller shops.

At its heart, the pitch from smaller core providers mirrors the one community bankers give those considering them over their largest competitors: They offer a high-touch, focused service model with real people responding to inquiries, problem-solvers able to understand and react to swiftly or at least explain their limitations without sounding like automatons. Smaller providers might not be able to offer the latest bells and whistles, and some might not be able to offer the full gamut of products and services. What they do offer, however, is more than enough to tilt the scales with a loyal and highly-satisfied group of bankers. Small core providers can bring a wealth of knowledge to their partnerships as well as swift and personalized solutions to problems.

**Partnership approach**

Data Center Inc., has its own coders on staff, but not the stable of developers a larger tech company would have. "I can't churn out stuff as quickly as I'd like to," said Sarah Fankhauser, president and CEO of the Hutchinson, Kan.-based company. "We have to be very careful what we choose to develop."

Sarah Fankhauser

Cost can be a perk with smaller providers generally edging out larger ones, although there are trade-offs here as well. "Some banks want to be on the bleeding edge, and they're going to pay dearly for that," said Illinois banker Mark Field, president and chair of Farmers Bank of Liberty, who also runs the core processor Community Bankers Cooperative (see sidebar below).

Despite the abundance of resources, size can be an inhibiting factor for any company, even a core provider. "Once you get above a certain size, an organization has to be run more by process and momentum and policy," said Trey Maust, executive chair of Lewis & Clark Bank, Oregon City, Ore. "It becomes more institutional in its nature; it's just the way things happen."

Institutional often equates to inaccessible or unresponsive, a complaint sometimes echoed by former customers of the Big Three.

“We have more of an opportunity to develop tighter relationships with our customers and our clients,” said Tony Lisenby, senior vice president of client implementation services and core implementation at SHAZAM, headquartered in Johnston, Iowa. The company, which is member-owned like a decent number of smaller core providers, has a closeness to customers and their concerns which publicly traded companies might not, Lisenby said. Most of them also employ a large number of former bankers.

Tony Lisenby

That closeness can give smaller providers a nimbleness in reacting to customer needs. “Our biggest thing is probably our agility, our ability to move quickly when we need to,” Fankhauser said. “Things change in the industry or things happen and we can move quickly to get our customers taken care of.” She cited the notoriously slipshod rollout of the Paycheck Protection Program. A smaller core provider might be able step into a more hands-on role in those situations, helping a bank navigate uncharted waters.

“We want to make sure the banks are competitive in their marketplace,” said Sandra Schmitt, vice president of product development at DCI. “We make things for multiple banks of course, but if a bank comes to us and wants some customization or extra work, we’re not going to make them wait two years while we look into it or do a viability study before we tell them we can get it done.”

For Minnesota banker Bryan Bruns, the choice between larger or smaller providers can be the difference between a more generic bank-in-a-box offering and having to do the legwork to assemble a complete package from multiple vendors. “On the one hand, you don’t want to have five different people to call if there’s a problem,” said Bruns, who is president and CEO of Lake Central Bank in Annandale, Minn. “But on the other hand, I don’t think that there’s one provider — with as fast as technology is changing and with the demand of consumer financial products — I’m not sure that one core provider can have the best in class of all the ancillary products.”

**Banker, know thyself**

At its most basic, a core is a pretty bare-bones piece of software. But as the customer comes to expect an increasing number of technology add-ons as basic offerings, banks must decide how to navigate the waters. Do they want to handle everything themselves, pricing and comparing a litany of options and their integration with the core? Or do they prefer to offload some of that burden to a partner?

“The average bank has less than a hundred employees and they need somebody to be their guide and walk along with them to deploy that technology,” said Chris Soyke, director of marketing and business development at core provider UFS.

Ultimately, a lot of the factors a bank will consider in choosing its core provider come down to personal preference and its situation. How important are the assorted add-ons and integrations to the bank? How much appetite does the bank have for innovation and being hands-on when it comes to its tech offerings? Does the bank have someone on staff who will manage those efforts, or is it looking for a core provider who can also vet options and bring them the cream of the crop?

The Grafton, Wis.-based, UFS views itself as an advisor-partner to its clients, a technology outfitter, said CEO Mike Tenpas. "We have the privilege of leveraging best of breed technologies in community banking," he said, "but we're then able to deploy those and deliver them with the nimbleness and the alignment to culture and service model that our community bank customers desire and appreciate."

Besides the tangible products and services, many community banks are looking for a relationship based on trust and respect, and smaller cores can be better positioned to provide that, Tenpas said.

That desire is reflected in the list of three main things articulated by the American Bankers Association's Core Platforms Committee, on which Bruns served. After discussions and presentations from some core providers, the committee synthesized banks' key wants: Access to their customers' data, fair contracts, and the ability to easily integrate add-ons.

The prospect of a core conversion will have even the most enthusiastic banker groaning in dread. The onerous — and expensive — nature of the chore means bankers might put off looking for a better solution until the pain of staying grows unbearable.

"You got to sometimes bite the bullet and do what you gotta do," Field said. "But bankers don't relish the thought of changing anything."

Mark Field

**What lies ahead**

The impacts of the pandemic have yet to be fully felt or analyzed, but with the overwhelming pressure to function digitally and remotely, banks have leaned on core providers and other third-party vendors to fulfill these heightened needs. Soyke at UFS estimated that a quarter of its customers had digital document signing functionality a year ago; that number has jumped to more than 85 percent.

With the increasing shift to digital, cloud technology was a popular buzzword even before the pandemic. Fintech providers, including Missouri-based Neocova, have moved in on traditional core providers' turf. With contracts long and laden with pricey termination fees, even strongly risk-averse banks might cast their eyes further afield for core solutions. "As banks are finally aging out of these contracts, I think we'll see more and more of them turn to an option that is cloud-native and API-first, capable of quickly launching new products that consumers want," said Neocova co-founder and CEO Sultan Meghji in an interview last year. "Being able to provide the digital offerings consumers want is no longer a plus — it's a necessity for banks' survival."

Ultimately, another benefit of smaller or nontraditional core providers is as simple as their numbers. Maust, who chaired the ABA Core Platforms Committee, was himself initially surprised by the number of smaller providers available. He and others spoke positively of the benefits given by a robust menu of options for bankers to consider. As with community banks, the ability to focus on a niche can be a strength, and competition helps build a strong industry.

Trey Maust

Micro core brings cost savings, control

Illinois banker Mark Field illustrates one end of the small core provider spectrum. President and chair of Farmers Bank of Liberty, Field also helps run the Community Bankers Cooperative, which was formed in 2013 to purchase the core banking software BANCADO from Waldorf Computer Systems of West Des Moines, Iowa.
CBC began small and has gotten smaller, with seven banks all below $150 million in assets. But for Field, who doesn't mind pitching in personally and values the cost savings he gets, the situation works out pretty well. The company works with a San Francisco coding company and a hardware provider in Alabama, and Field appreciates the ability to request precise customizations on his core product.

"Sometimes we drive the tech guys a little crazy cause we need to tweak this or that to accommodate one of the member banks," Field said. "But we own it and we control it."