To Convert or Not Convert Your Core

technology core provider industry update

Summary: The decision to convert to a new core banking system is a monumental one. There are many reasons to make the leap so that your institution can continue to grow, though a "rip and replace" may not always be the right option. Determining whether an upgrade to your existing system could save you money, and may buy you time for even more evolved systems to come to market.

Since the first iPhone debuted in 2007, Apple has released new versions of the iPhone every year. Bug fixes, upgrades, and security updates are made frequently, but Apple generally only provides software support for the seven or eight most recent iPhone models. Older models are no longer supported because of the age of their operating systems.

Just as smartphone operating systems change and improve as technology expands, core banking systems undergo similar transformations.

The History of Core Banking Systems

Core banking systems have evolved dramatically since being introduced in the 1960s and 1970s. Those early versions were developed in-house on mainframes with virtually no security, and they only processed core banking transactions. In the 1990s, more flexible, customer-centric core banking systems were developed, though the on-premise infrastructure soon became unwieldy and difficult to integrate with new software. Today's Software as a Service (SaaS) and application programming interface (API) solutions allow third-party solutions to more easily plug and play with a financial institution's core, unlocking innovative products and services for banking customers. Of course, now core banking systems are entering an entirely new era, with next-gen systems on the horizon.

When To Upgrade Your System

While converting a core banking system is both costly and labor intensive, there are some compelling reasons to finally bite the bullet — especially if not converting will prove costlier in the long run and ultimately stymie the growth of your community financial institution (CFI).

For starters, your CFI may have simply outgrown your legacy system. You may have bought your first core system when your CFI was just starting and now your CFI has hit a new growth threshold — but your core has reached the limits of its capabilities. Or your core has become much too difficult to manage, impeding growth.

Take Community Spirit Bank in Red Bay, Alabama, for example: the CFI had been on the same core banking system since 1982, and it took a gaggle of ancillary products to make it run.

"You had not only the core but also a separate vendor for internet banking and another for financial management, debit and credit cards," says Brad Bolton, Community Spirit Bank's president and CEO. "For the bank's future, we needed to have something under one umbrella to serve our customers most effectively."

When To Wait for Your Core To Catch Up

But before you decide to “rip and replace” and buy an entire new system, first determine whether an upgrade to your existing core will get you the functionality you need for your future plans. You might be able to get another five or 10 years out of your existing core, enabling you to hold off on a very significant investment until you absolutely need to do so. Moreover, waiting until even more advanced offerings are available could prove prudent. This is a good option if you currently lack the capital to install a new core banking system or if you think it’s more strategic to invest in other priorities.

There’s another possible benefit to waiting as well: the possibility that your core could have new tricks up its sleeve in the next few years. In fact, McKinsey predicts some M&A activity between traditional and next-gen core banking system providers over the next several years, which could further evolve what the “traditional” providers will be able to offer. Many already have incorporated open banking and APIs within their system offerings. If you determine that you do need to expand your capabilities in some way, but lack the bandwidth, skills, or budget to change providers, it may also be smarter to simply upgrade your existing core to give you the functionality you need for the next decade, allowing you the opportunity to wait for even more advanced offerings to come to market. When you weigh the cost and time investment of switching cores against the potential for your existing core to make the changes you’re finding a need for, you might be surprised by which option comes out on top.

Deciding whether to convert your existing core is a decision no financial leader takes lightly. It may be a case of weighing whether or not it hurts your growth and bottom line more to stay the course than to bite the bullet and replace your core system.

SAVE ON YOUR BIGGEST EXPENSE: CORE CONTRACTS

ECONOMY & RATES

Rates As Of: 02/28/2024 05:39AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.45	0.03	0.05
6M	5.33	0.15	0.07
1Y	5.00	0.30	0.24
2Y	4.67	0.46	0.42
5Y	4.28	0.44	0.43
10Y	4.27	0.35	0.39
30Y	4.41	0.24	0.38

FF Market	FF Disc	IORB
5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.31	8.50	5.31