

# AMERICAN BANKER

## Why more banks are ditching their legacy core vendors

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February 3, 2020

[American Banker](#)

Ryan James is done with the legacy core system providers that dominate the banking market: Fiserv, FIS, Finastra and Jack Henry.

“The biggest threat to banking innovation is the legacy cores,” said James, who is CEO of Surety Bank in DeLand, Fla., which has \$130 million in assets. “I want the bank to be here for another a hundred years, and it just was not happening under any legacy core.”

His frustrations were more to do with customer service and corporate culture than with technology per se.

“When I was under legacy core, I got lied to time and time again,” said James, who did not single out any but said he has dealt with them all. “They would say, ‘We’ve got this product.’ And then you get it and launch it and it doesn’t have half the things that you thought it had. And they’re like, ‘Oh, that’s an add-on.’ They just don’t follow through. And then when you do need a best of breed — they can’t be the best at everything — they make it so difficult to plug and play.”

Pricing was another issue.

“They want to charge you for every tiny little thing, even though they may not have a direct cost,” James said. For instance, some new accounts have low balances for a long time before they start to grow. But the large core providers tend to charge \$7 per account per month for mobile and traditional banking no matter what.

“They don’t care about whether their bankers are viable,” James said. “And they make it difficult when you leave” with rough core conversions and termination fees.

Fiserv, FIS, Finastra and Jack Henry did not respond to a request for comment. Some have been working on cloud offerings of their own.

James is one of a small but growing number of bankers who are switching to a newer group of providers of cloud-based core banking systems that use application programming interfaces. Those providers include Nymbus, Neocova, Finxact and Technisys. Older cloud-based systems,

some based outside the U.S., are also gaining traction. Temenos provides the core system for Grasshopper Bank and Varo Money. Infosys Finacle is the core behind Goldman Sachs' Marcus. Oracle is working with KeyBank on a piece-by-piece core replacement.

James chose Nymbus in May to help streamline the bank's technology because he liked the company's approach, the amount of experience and financial backing it had and the fact that upgrades are pushed out at no additional charge. "They had deep pockets, and they already had hundreds of millions of dollars invested in core," he said.

David Mitchell, president of Nymbus in Glastonbury, Conn., was president of another core vendor, Open Solutions, until Fiserv bought the company in 2013.

"I wasn't necessarily going to get back into core banking, because it's the highest barrier-to-entry market there is," he said. "It's the most regulated industry in the United States, and you have your big-four oligopoly. It's very difficult for new entrants to enter, and it takes a lot of capital."

But he, too, was impressed by the investment that had already gone into Nymbus's software.

"I knew the engine of the car was already built and it already had \$400 million invested in it; we felt we could get to market faster than anybody," he said.

Nymbus took ten clients live last year, according to Mitchell. Some of these were digital-only sub-brands like Merrillville, Ind.-based Centier Bank's Billinero. TransPecos Bank, a community bank in San Antonio, converted its core to Nymbus.

Neocova, which launched in October in New York, recently received \$9.5 million in Series A funding from community banks including Bank of St. Elizabeth, Coastal Community Bank, First Financial Bank, Kearny Bank, Provident Bancorp and Sunwest Bank.

According to CEO Sultan Meghji, Neocova's master services agreement is community bank-friendly. For instance, there is no termination fee, and there are no restrictions on access to data.

He also says the company has a short innovation cycle.

"We can go from signed contract to a sandbox in under 24 hours," he said, referring to a sandbox-testing environment in which software code changes can be tested in isolation from the production environment.

The software has an artificial intelligence framework that assists with anti-money-laundering and know-your-customer requirements, he said.

Coastal Community, a \$1 billion-asset bank in Everett, Wash., announced in early January that it has entered into an agreement with Neocova to develop and implement a unified data warehouse solution with a dashboard and reporting engine as well as an anti-money-laundering monitoring tool.

Coastal's aim is to develop an integrated compliance and reporting system for its banking-as-a-service partners, which are broker-dealers and digital financial service providers. Coastal wants to improve oversight through a transparent view of all partner data in a unified reporting platform.

Finxact is a very new provider. The Jacksonville, Fla., startup received \$30 million in funding in 2019 from the American Bankers Association, SunTrust Banks, Live Oak Bank, Woodforest National Bank, First Data and others.

Frank Sanchez, founder and CEO of Finxact, said the company has twelve contracted customer deployments, including soon to be announced deals with \$20 billion and \$90 billion regional banks that have elected to run their new digital banks on Finxact. Woodforest is also converting to Finxact Core as a Service. The software runs on Amazon Web Services.

The new digital challenger bank Rellevate, which is being formed by former Western Union executive Stewart Stockdale and is expected to go live in the first quarter of this year, recently chose Technisys' cloud-based core system. The software is being used by 15 banks around the world. The company closed \$50 million in a Series C financing round led by Riverwood Capital in May.

Varo Money and Grasshopper Bank both use Geneva-based Temenos' T24 core software. Temenos also signed an agreement with Commerce Bank to use its core software in 2016; this is still in the works.

According to Ranga Sathianarayanan, chief product officer at Temenos USA, a challenger bank for small businesses — Judo Bank in Australia — went live on a Temenos module hosted on Microsoft Azure in less than 90 days. Temenos has built compliance with data residency requirements, the California Consumer Privacy Act and the European Union's General Data Protection Regulation into its offering, as well as all relevant federal regulations in the United States, he said.

Its acquisition of the digital banking software provider Kony in September gave Temenos a U.S. customer base. Kony had recently acquired Umpqua Bank's Pivotal Ventures, which developed Umpqua Bank's Go-To app, which lets customers choose a personal banker to communicate with. Temenos also says it provides artificial intelligence and support for augmented reality and wearables.