The Path to Core Modernization:

Modernization is a strategic evolution, not just a tech upgrade. By prioritizing transparency, communication, and shared accountability, financial institutions can build strong, innovation-focused partnerships with their core providers.

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For community banks and credit unions, modernizing the core banking system is no longer a strategic initiative becoming a matter of if but of how soon? To remain relevant and competitive in an increasingly digital world, institutions operating on an outdated core system are at risk of falling behind both fintech disruptors and larger financial institutions with deeper technology investments.

Banks and credit unions are increasingly challenged by aging platforms that cannot keep pace with evolving operational and customer demands. Legacy core systems lack the speed, scalability, and flexibility required by today's banking environment. As a result, institutions are burdened by patchwork integrations, manual workarounds, and escalating maintenance costs, all of which drain resources and stifle innovation. At the same time, customer and member expectations are shifting toward real-time services, personalized experiences, and seamless digital interactions. Financial institutions that fail to modernize their core systems risk losing customers or members and becoming as outdated as the legacy systems they rely on.

Core Systems vs. Core Providers

Together, the core system and core provider deliver modern technology solutions and form a foundation for superior operational efficiency and exceptional customer/member service. However, banks and credit unions operating on legacy systems experience siloed data, an inability to integrate modern APIs, high costs, and slow speeds to innovation. A survey conducted by the ABA in 2024 found that more than 55% of banks cite outdated core systems as a major barrier to digital transformation.*

While technology constraints are often seen as the main reason for core transformation, the relationship with technology providers is just as important - and often just as challenging.

Issues such as locked-in contracts, lack of transparency, slow implementation, and poor support can erode trust between vendors and financial institutions, making modernization seem risky. Banks and credit unions should look for technology partners who not only deliver solutions but also act as strategic allies committed to long-term growth and innovation.

Satisfaction, Guaranteed

A key part of core modernization is building strong provider relationships. When banks and credit unions form transparent partnerships with their core vendor, they create quality systems and experiences that benefit both employees and customers or members, helping them achieve their goals more effectively. Well-defined mission and vision statements and stated company values and goals can be used to help financial institutions identify their expectations of the ideal core provider. They should also consider how well their goals align with the potential vendor, whether there is a good cultural fit, and if both parties share a common vision for the future.

53% *According to a recent ABA study, only 53% of respondents reported being satisfied with their core platform provider.*

Beyond the initial selection process, a successful core modernization includes a thorough gap analysis to identify legacy issues, scalability needs, and technical shortcomings. This analysis guides the selection of a core platform that matches long-term objectives for system architecture, integration capabilities, and strategy. Early questions about roadmaps, integration, and innovation help ensure ongoing alignment and address future challenges. The path forward begins with a systematic evaluation of the core platform and the nature of the relationship itself.

When negotiating, institutions should move beyond surface-level discussions and ask detailed questions about API access, cloud-native features, data availability, and AI readiness. Banks and credit unions should also assess the provider's technical and operational support for their transformation. Lastly, include joint accountability in contracts, and clearly defined service levels, deliverables, timelines, and termination terms to ensure a successful and lasting partnership.

The provider's ability to understand the institution's mission, adapt to its evolving needs, and invest in the success of the bank or credit union is imperative. A robust core solution must be paired with a trusted and forward-thinking partner. The financial services landscape continues to evolve rapidly and systems that were once adequate may now be limiting an institution's potential. Regardless of current vendor satisfaction, reevaluating the core system every five years is on par with offering a modernized banking experience.

In part two of this article, we will examine core vendor relationships, analyze key industry players, and explore their unique strategies.

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