CB-3355 ABA Community Bankers Association_July Newsletter Article

The Modernization Mistake Community Banks Keep Making

Strategy vs. procurement: Why most modernization initiatives fail before they start

By John Bresnahan

Community banks aren't stalling because they can't modernize. They're stalling because they're choosing the wrong modernization path.

You either rip and replace everything—or you accept that you're stuck with legacy systems forever. It's a false choice. And it's costing your institution real money and competitive position.

The truth? There are multiple pathways to modernization, and picking the right one for your community bank is the difference between unlocking growth and investing millions for marginal returns.

But here's what worries me: too many community banks are making that choice based on vendor convenience, not strategy.

The Three Paths No One's Talking About Clearly

For years, community banks have operated under the assumption that modernization meant one thing: a full platform migration. You run an RFP, spend 12-18 months evaluating vendors, then commit to a multi-year rip-and-replace that impacts every system and every process.

For some community banks, it works. For most, it doesn't.

That's why more strategic community banks are recognizing there are actually three distinct pathways forward:

The incremental approach is about optimization within constraints. If you're locked into a long-term contract with an incumbent processor, or if your bank simply isn't ready for major change, you can still modernize where it matters. You might:

- Add API layers to existing infrastructure
- Migrate to cloud-based hosting models
- Implement mobile wallet tokenization and virtual cards
- Deploy modern reporting dashboards

It looks modern on the surface. It often feels like progress. But here's the hard truth: you're still operating with the same core processing infrastructure. Your batch settlement cycles don't change. Your authorization rules don't shift.

Your customers think they have a modern institution. In reality they're getting the same experience they got five years ago. That's the legacy spaghetti problem — and it's more common than most institutions admit.

The modular replacement approach is where strategy actually meets execution. Instead of modernizing everything, you pick a specific segment of your portfolio—maybe your commercial credit platform, a new payment product, or a money movement initiative—and you modernize just that piece. You test a new processor. You build internal support and confidence. You prove the model works.

This is not the same as multiprocessor complexity. This is strategy. Composable platform solutions allow you to modernize discrete segments while maintaining a path toward full integration by:

- Building internal political capital for what comes next
- Reducing risk by testing in a contained environment
- Creating momentum toward planned full migration

The full platform migration is what everyone imagines modernization to be. It's also the most expensive, time-consuming, and risky option. Twelve to eighteen months of vendor evaluation. Multi-year implementations. Organizational disruption that touches every corner of the business. It requires 30-40% cost savings or revenue uplift to justify the effort.

It's the right move for some institutions. For many, it's overkill.

The Real Reason Modernization Projects Fail

Too many community banks have spent millions on modernization and saw marginal returns. Technology wasn't the problem. The strategy was.

Here's what separates the winners from the also-rans:

- **Separate strategy from procurement.** This sounds obvious until you realize how many community banks treat modernization as a procurement exercise. Procurement brings process, efficiency, and bias toward cost reduction. That's not wrong—procurement exists for a reason. But it's the wrong lens for technology strategy.

  When procurement leads the conversation, you end up optimizing for the RFP instead of your business outcomes. You end up with feature checklists instead of strategic alignment. You end up with the wrong vendor because they were the cheapest, not the best.

- **Think sequentially, not ambition-first.** The community banks that succeed pick a clear entry point (a specific product, a segment, a market) and nail it. Start small. Build credibility. Scale up. Proven implementation management is what turns that sequence into results.
- **Build a business case that survives leadership change.** This is the one nobody talks about, and it's critical for community banks. I've watched promising modernization initiatives collapse because a board member or executive sponsor moved to a new role, and suddenly the strategy that was approved became yesterday's priority.

The modernization efforts that succeed are the ones where the ROI is so clearly tied to what community banks actually care about that the case survives leadership changes:

- **Customer acquisition and retention** (not just operational efficiency)
- **Profitability growth and margin expansion** (not just new products)

- **Competitive speed to market** (staying ahead of larger competitors and fintech)
- **The ability to say "yes" to customer demands in days**, not months

For community banks, this isn't about backend optimization. It's about winning the moments that matter to your customers before someone else does.

Competitive Pressures You Can't Ignore

Here's what keeps me up at night: Community banks are losing competitive ground not because customers don't value the community bank difference. They're losing because community banks are modernizing too slowly—holding back because they're trying to do it all at once instead of moving strategically.

Real-time decisioning, instant issuance, programmable banking, seamless digital experiences—these aren't optional anymore. They're what customers now expect. And community banks that can deliver them win. The ones that move slowly lose.

Community banks can't outspend larger institutions. But community and regional banks can out-move them.

A 120-year-old regional bank holding 46% market share in their core geography faced this exact challenge five years ago. They're a systemic institution in their market—not a fintech, not a startup, but a deeply embedded banking franchise with unique constraints and competitive pressures.

They decided to modernize. But they didn't go all-in on a full platform migration immediately. They started with their core—moving it to the cloud. It took discipline. It took two attempts. But they learned. They built internal capability. They created organizational change management structures that didn't exist before.

Now they're executing a comprehensive transformation:

- Omnichannel digital-first banking
- Data warehouse consolidation (from 19 different data sources)
- New payment processing architecture
- Refreshed AML/CFT compliance infrastructure
- API-first, composable architecture enabling faster innovation

How? They didn't rush. They sequenced. They started small enough to win, then built from winning.

They also—and this matters—chose partners who understood them as an institution, not just another deal. They found vendors willing to flex with their timeline, their constraints, their culture.

If you choose modernization that puts your customers' experience first—not your backend efficiency—you win. If you pick a path that lets you move at speed while staying true to what community banks do best, you keep the relationships and trust that matter.

The question isn't whether you can build the most advanced technology. It's whether you can move like a modern institution while keeping what community banks do best: genuine customer relationships, local decision-making and community commitment.

The Real Cost of Wrong Decisions

Too many community banks are making modernization decisions based on vendor relationships or procurement convenience rather than strategic fit.

They're treating platform selection as a commodity purchase. They're letting RFP cycles drive strategy. They're choosing partners who promise seamless integration instead of partners who understand community banking.

For community banks, modernization isn't about being the latest or the greatest. It's about staying competitive in your market and keeping customers engaged:

- Technology aligned with business outcomes
- Vendor aligned with your community bank's values and customer-first culture
- Timelines aligned with your organization's capacity to change

When you choose wrong you lose competitive time and organizational momentum—and end up stuck maintaining complexity instead of innovating. Card issuing infrastructure is where that cost shows up most clearly.

Where This Goes Next

The financial services landscape is shifting fast. Your customers' expectations are shifting faster.

The community banks that stay competitive are the ones that move fast—not to have the sophisticated technology, but to keep up with what your customers now expect.

You don't need to be the biggest or have the most sophisticated technology. You need clarity on where you're going, realistic timelines, and partners willing to flex with your needs rather than forcing you into their template.

- Pick your path.
- Separate strategy from procurement.
- Think sequentially.
- Build a business case that survives change.
- Choose partners who understand this is a partnership—not just a vendor relationship.

That's how modernization actually works—with an all-in-one platform approach that simplifies vendor relationships and enables strategic flexibility.

Start Here

If you're evaluating modernization options, ask yourself three critical questions:

1. **What specific business outcome are we trying to achieve?** Reduce fraud by 30%? Launch new products in 90 days? Grow net interest margin? Be specific.
2. **What pathway makes sense for our constraints?** Incremental? Modular? Full migration? Pick what's realistic for your organization right now.

3. **Is our vendor a partner or a transaction?** Do they understand community banks? Do they get why customer relationships matter? Will they flex when you need to pivot? Can you reach actual decision-makers if things go sideways?

Modernization is a strategic choice. For community banks, it's also a competitive one.

The community banks that get this right don't just survive modernization—they use it to compete harder and keep customers engaged longer.

John Bresnahan is Global Head of Operations at i2c with 30 years of payments industry experience working with banks of all sizes. His expertise in modernization strategy and operational transformation speaks directly to the modernization choices community banks must make to stay competitive.