When Your Processor Becomes Your Strategy: The Opportunity Banks Are Missing

The role of issuer processors has fundamentally shifted, and the banks that recognize it first stand to gain a real edge.

By Dean Scharmen, Jr.

I've been in this industry long enough to see how dramatically the relationship between banks and their processors has evolved. Not long ago, a processor was primarily an operational vendor, evaluated on stability, fraud performance and compliance readiness. Those were the key metrics.

Today, the landscape looks completely different.

Recent research from i2c and American Banker, which surveyed more than 168 qualified respondents across community banks, regional banks and larger players, tells a clear story: 73% say the role of their primary issuer processor is much more strategic than it was just a few years ago, and 76% say their processor now resembles a strategic partner.

The opportunity is that very few banks are acting like that's true yet, which means the banks that adjust first have a chance to pull ahead.

The Perception-Reality Gap

When we asked banks how their processor relationship impacts their business, the responses were revealing. We learned that 54% say they're completely dependent on their primary processor's platform for modernization capability, and another 23% say they're moderately dependent.

Think about that for a moment.

The "not dependent" category barely registers. That tells you something fundamental has changed about how processors function in the banking ecosystem.

Yet when I talk to banks about processor selection, evaluation and relationship management, they're often still operating from an old playbook, focused on cost reduction, risk management and operational efficiency. Those things still matter, but they're no longer what drives competitive advantage.

The banks that understand their processor relationship directly enables or constrains their ability to innovate are positioning themselves differently, and it's a mindset shift well within reach for any bank willing to make it.

The Hidden Costs of Complexity

Here's where I see banks making their biggest mistake: 65% of banks use multiple processors, usually for good reasons: risk diversification, access to differentiated capabilities or specialized support for specific product lines.

The logic feels sound. The reality is more complicated.

When you have multiple processors, you're not just managing multiple vendor relationships. You're managing multiple fraud detection processes, multiple chargeback workflows, multiple reconciliation methodologies and different compliance approaches across your organization.

That exponential complexity carries real costs, in speed, in agility and in your ability to respond to market changes.

I've talked to executives who made multiple-processor decisions thinking they were reducing risk, only to find they'd reduced their competitive flexibility instead. One institution I worked with chose its processors primarily around risk management, and those choices ended up forcing it to scale back capabilities it was already providing to customers.

When customers noticed, they weren't happy, and the bank is now spending time and resources rebuilding what it removed, further behind competitors.

The default assumption tends to be that multiple processors means multiple options, and therefore less risk. But that's not what the data suggests, and it's not what I'm seeing in practice.

What the Market Actually Demands

When banks describe what they want from their processor relationships going forward, the requests are remarkably consistent:

- **Open APIs:** the ability to build on the platform, not be constrained by it
- **Strategic partnerships:** genuine collaboration, not just service delivery
- **Self-service configurability:** flexibility to adapt and customize without being locked into rigid frameworks
- **Speed to market for innovation:** the ability to launch new products and capabilities quickly
- **Real-time capabilities:** not batch processing, not next-day settlement

These demands come from traditional banks and fintech players alike. But traditional banks often struggle to ask for them directly or to enforce them in their processor relationships, still evaluating processors through operational and cost lenses rather than strategic ones.

That's a fundamental mismatch. You cannot evaluate a strategic asset using operational metrics alone.

The Dependency Question

I know what concerns a lot of bankers: dependency. If you rely heavily on a single processor, aren't you vulnerable?

It's a fair question, but I'd argue it's worth reframing.

Every sophisticated organization depends heavily on vendors it didn't build itself. You're dependent on your hosting infrastructure, your cloud provider, your database systems, and, in ways you probably don't fully recognize, a range of other technology providers.

The real question isn't whether you should depend on a processor. It's whether that dependency is healthy, well-managed and still allows you room to choose.

There's a critical difference between strategic dependency and risky dependency. Strategic dependency sounds like: "We chose this processor because their capabilities enable us to compete and innovate in ways we need."

Risky dependency sounds like: "We're locked into this processor relationship because we don't have alternatives."

When the relationship works well, when there's genuine partnership, transparency and flexibility, that dependency becomes an advantage, freeing you to focus on business strategy instead of juggling multiple vendor relationships and integrations.

When it doesn't, when the processor is restrictive and transparency is lacking and change is hard to come by, that same dependency becomes a vulnerability.

The Measurement Problem

Many banks still measure processor success using outdated metrics:

- How many transactions are processed?
- How low is the fraud rate?
- How compliant are we?

These are necessary baselines, but they're no longer sufficient differentiators.

What banks should be measuring instead:

- How fast can we innovate?
- How quickly can we bring new products to market?
- How well does this processor let us serve customers in ways competitors can't?
- How flexible is this relationship when our business needs to change?

That's a different conversation entirely, and it calls for a different kind of partnership.

What Needs to Happen

If you're a bank evaluating or managing a processor relationship, here's where I'd start:

1. **Evaluate your current processor through a strategic lens**, not just "do they keep the lights on?" but "do they enable us to compete differently?" If the honest answer is no, that's worth addressing now rather than later.
2. **Ask yourself what you're hoping this relationship enables over the next three to five years.** Be specific, then ask your processor the same question and see how well you're actually aligned.

3. **Revisit your evaluation criteria.** If you're still defaulting to cost and risk metrics, expand the framework to include innovation capability, platform flexibility, relationship quality and speed to market.
4. **Consider whether your processor relationship is truly a partnership or just a vendor arrangement.** Can you have honest conversations about what's possible and what isn't? Are they willing to explore new capabilities even if they haven't built them before, or do they only want to sell you what already exists?

These questions matter more than they might seem, because the processor relationship isn't just about operations anymore. It's about strategy: what you can do, how fast you can do it and whether you can compete in an increasingly fast-moving, complex financial services landscape.

The banks getting this right understand that thinking strategically about their processor relationship isn't just good practice; it's the opportunity that sets the pace for everyone else.

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