Has the Pendulum Swung Too far?
by Charles B. Wendel

Two decades ago many banks focused on developing their own technology solutions rather than relying on third party technology providers. The idea was that developing bespoke solutions would better serve their customers rather than offering a "canned" solution. However, to be blunt, job preservation and ego also played a big role. At most banks, except for the largest, that situation has changed with banks relying upon big core providers and Fintechs for the majority of the solutions they provide end clients. But do banks now rely too heavily on third parties?

The short answer is "no." Most banks have no choice but to work with a myriad of vendors. Technology continues to change at a rapid pace, and a technology specialist should be better situated to capture what is happening and help their bank clients adjust quickly to the changing environment. Note I used the word "should." Many vendors fail their bank customers.

Some of the core players seem to have become too big to get out of their own way. The pandemic may have made the situation worse with in-person meetings having given way to endless Zoom calls. Senior management appears to focus on acquisition after acquisition, vacuuming up specialist companies. This serves to eliminate competition and, in theory, broaden their product line.

But the complexity of these organizations makes it difficult for them to perform for their clients. Acquisitions eat up time and energy; acquisitions also change the corporate culture. We have seen instances in which the acquired company loses the vibe that made it successful as it becomes part of a Soviet-style bureaucracy. Sometimes these big players seem to view their customers as less important than managing internal politics, since office politics may determine their fates.

So, what should banks do? I recently attended a Board of Directors meeting at my Miami condo. Several Board members commented about the Property Management company and some issues they had with them. Their contract is up in August 2022. One attendee (me) suggested that the Board create an RFP and include the current firm in the group as well as others. Even if they decided to stay with the current firm, an RFP could lead to better service. But a senior Board member said something like the following, "All the companies are mediocre, and it is better to try to work with the one we have to change things." Really? Frankly, that approach seems lazy and shortsighted, one that will allow the current company to continue to underserve. But it is easier than going through an RFP process. RFP processes are never fun.

Too often banks fall into the same trap. Longstanding relationships with vendors can result in bank overreliance on a vendor, and the vendor taking a client for granted. Yet, banks often conduct poor or no RFP process. RFPs should not be optional except for the smallest technology contracts. Not conducting a rigorous RFP process can result in increased costs and lost revenues as well as increased staff frustration and decreased productivity. RFPs can be created so that its requirements best serve the needs of your customers. RFP processes are never fun, but they are essential.

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