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FIS Retreats On Security Surcharge For Its Bank Customers

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FIS, one of the big three banking tech vendors in the U.S., has backed away from its plan to impose a security surcharge on its customers after complaints from a coalition of bank customers.

Aaron Silva, president and CEO of the Golden Contract Coalition, which he formed to help banks fight against the complex contracts developed by FIS, Fiserv and Jack Henry, wrote in a letter to members that FIS has agreed to suspend the surcharge

"The recent failed unilateral attempt by FIS to demand additional security surcharge fees on community banks is much more than a material breach of the existing security SLA relied upon by thousands of community banks nationally," he wrote. "In fact it loudly illustrates the overconfidence and unchecked power wielded by the Big Three Oligopoly made up of FIS, Fiserv and Jack Henry Associates."

Community banks using FIS have complained about a cybersecurity surcharge. (AP Photo/J Pat Carter)

FIS disagreed with that characterization. In an email comment, the company said:

“FIS has invested hundreds of millions of dollars on people, processes and technology to provide our clients with one of the most advanced cybersecurity environment in the industry. The indemnity-focused security surcharge pilot program was a test program directed at a small number of our U.S. core banking clients, designed to provide them with an additional indemnification benefit and help offset the significant investments FIS continues to make to protect our clients in the face of rapidly evolving cyberthreats.

“Based on feedback from our valued clients, we have decided to end the pilot program, which had not been fully rolled out.”

Only a subset of community banks that use FIS received the announcement of a potential charge, said Viveca Ware, group executive vice president of regulatory policy at the Independent Community Bankers of America.

However the Texas Bankers Association and the Independent Bankers Association of Texas wrote to FIS, and copied the ICBA, to protest a surcharge that could reach upper five figures.

"Our members take cybersecurity very seriously. But they are, to say the least, seriously perplexed as to why the security features that FIS is obliged to provide as part of their agreements are suddenly deemed by FIS to be insufficient. Of equal concern is the fact that the notice seems to imply that these protections are not included as part of their base contract price." The associations said that the FIS notice and surcharges signify a tone deafness to the needs of the banks.`

The core system providers are hugely unpopular among bankers. As I reported earlier this year, both the American Bankers Association and the Independent Community Bankers of America are financing new core system developments to compete with the Big Three.

Silva’s organization assists banks with understanding and modifying contracts, which can come in two-inch thick binders.

“We have advised and negotiated deals on behalf of hundreds of your member institutions and by the end of 2020 are expected to have returned more than $300,000,000 worth of non-interest expense to community banks that would have otherwise been enjoyed by the Big Three Oligopoly,” he informed members. "In addition, we have mitigated more than $100 million in termination, conversion and de-conversion expense associated with M&A activity.”

A big complaint among bankers is that after a merger or acquisition, a bank may still be compelled to pay for a system it is no longer using.

“We estimate that in 2019 FIS, Fiserv and Jack Henry may be rewarded by more than $410 million for services they will never actually provide simply because banks decided to merge,” Silva wrote.

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