**Banking and IT**

**Computer says no**

**Big banks need IT reform almost as badly as regulatory change**

The Economist, Jul 22nd 2010

WHEN Metro Bank, which claims to be Britain’s first new high-street bank for more than 150 years, opens its first branch on July 29th in inner London, customers will notice the lollipop jars and water bowls for dogs. But what really sets Metro Bank apart is its state-of-the-art IT system. New customers will be able to get their account, chequebook, debit and credit cards within 15 minutes, and all the data for each customer will be kept in one place.

That puts Metro Bank in an enviable position. IT at many other Western banks is often a hotch-potch of homemade systems. Banks were the first to use mainframes in the 1960s; many are still using the original applications because it is risky to swap them out. Over the years more and more systems have been slapped on. Banks were often profitable enough to afford big IT teams, writing programs themselves rather than buying off the shelf.

As a result banks tend to operate lots of different databases producing conflicting numbers. “The reality was you could never be certain that anything was correct,” says a former executive at Royal Bank of Scotland. Reported numbers for the bank’s exposure were regularly billions of dollars adrift of reality, he reports; finding the source of the error was hard.

Many banks also do not have a “single view” of their customers, which would allow them to offer tailored products or simply serve them better. Most systems are organised around accounts, not people. A customer’s data are duplicated for each account, often in slightly different formats. This is why talking to a call centre can take forever as employees laboriously switch between applications to sort things out.

Some banks, particularly the smaller ones, outsource their IT to providers such as Fiserv or use packaged software. Vendors range from well-known names, such as Infosys and Oracle, to specialised firms such as Temenos. Such products are particularly popular in developing countries where IT systems are in an even worse state or banks do not have the money to develop their own, says Andreas Andreades, Temenos’s boss. Firms can offer better service as a result. It takes Vietnam’s Techcombank, one of the country’s fastest-growing banks, days to launch new products. It takes weeks for foreign rivals.

A few big banks are trying to improve. When HSBC started a huge consolidation project called “One HSBC” in 2008, it operated 55 separate systems for core banking, 24 for credit cards and 41 for internet banking. By the end of next year, says Ken Harvey, the bank’s chief information officer, it plans to have one “gold suite” of applications implemented globally. But most bigger banks are still grappling with how to move forward, according to Martin Whybrow of IBS Intelligence, a research firm.

That is good news for start-ups such as Metro Bank, which wants to open more than 200 branches in Britain by 2020. With such grand designs, isn’t Vernon Hill, one of the bank’s founders, tempted to build an IT system of his own? “I hate programmers,” replies this dyed-in-the-wool entrepreneur. “They only cause trouble.”