LUCKY 13: WHY I.T. COSTS ARE FALLING, ESPECIALLY FOR SMALLER FINANCIAL INSTITUTIONS

For all kinds of reasons, I.T. isn’t breaking the budget in community banks these days

* * *

By Art Gillis, banking technology consultant. Read more about Gillis here.

I can find 13 legitimate reasons why bank IT costs are lower now for 14,539 financial institutions (including credit unions), but only in part for 128 giants.

First, I need to confess to a trait I acquired from birth. New Englanders are blessed with a birthright by simply being born in one of six states. We are called frugal, tightwads, stingy, cheapskates, and other names. For example, a detail not reported by the press about the 2008 banking crisis is the number of bank failures in New England. I couldn't find one in the 438 between 2008 and 2012. Frugality is probably why I have a keen interest in what things cost.

Thus my interest in reporting here that IT, my occupation for the past 55 years, is now costing less.

Second, there's a dramatic difference in spending habits among three tiers of financial institutions. Large banks spend IT dollars like drunken sailors on shore leave. Mid-tier and small banks spend like New Englanders. So even though the first six items in my list apply to all banks, the rest belong to discretionary spenders that typically include mid-tier and small.

1. Check 21: Item Processing costs have been cut because paper checks are truncated at the source.

2. Remote deposit: Merchants and branches do not transport their deposits to a bank. They enter them online where they originated.

3. Document imaging: electronic instead of hard copy.

4. Popularity of electronic payments: Continued increase in electronic payments by bank customers.

5. Shrinking branch traffic: Continued reduction in branch activity thanks to mobile, internet banking, ACH, and the primary eliminator of brick and mortar--the ATM.

6. Call me--responsible: A darn good call center that isn't staffed by a bunch of newbies.

7. Buying off the rack suits, instead of tailored: Mid-tier and small banks are using vendor solutions more (and properly) so their costs are coming down. Large banks are stuck with deep-rooted custom systems that cost much more to maintain. And they'll never switch to so-called modern architecture cores because 45 years of customized functionality will be lost the day after go-live.

8. IT personnel costs are huge at large banks: For example, one third of all employees at BofA are IT people. It's much different at mid-tier and small banks. Bankers drive the business. IT guys monitor the integrity of activity and the interests of user staff.

9. Shrinking shopping lists: Fewer new technologies are for sale (because everything's already covered) and that results in fewer new purchases. A problem for vendors; a hoped-for break for bankers.

10. Cheaper new products: Recent IT capabilities (past 8 years) offered by vendors are of the inexpensive variety, such as mobile banking. That means new spending is down and accrual accounting, for dollars spent today, makes it even easier to digest each year.

11. Falling prices: The cost of core processing systems and services is coming down as the systems become more mature. Ninety-eight percent of all FIs are not changing their core system because good vendors have mastered the idea of three makeovers per year. It's like the discovery of an Oil of Olay for old core systems.

12. Familiarity is the sweetest word in the IT lexicon: Alan Greenspan loved reporting on productivity even though he couldn't tell Andrea Mitchell what he wanted for breakfast. Employee productivity is directly related to the number of years on the job using the same system. Long-term core brand plus long-term employees=higher productivity.

13. Focus on you and yours: The best way I know to keep IT as the most cost-effective resource: Finding and implementing the best core FIT for YOUR bank. In other words, don't follow what others are doing unless they are 100% congruent to your bank, your people, your customers, your strategy and your, your, your.