Still in denial

Despite banks' ongoing struggle to improve the agility and transparency of their information systems, David Rowe argues they are still ignoring the need for a fundamental change in architecture

This past January, the Basel Committee on Banking Supervision issued its second report[1] on progress towards the January 1, 2016 deadline for compliance with BCBS 239 – its principles on risk data aggregation. Once again, it makes depressing reading. Some self-estimates of progress have actually fallen since the previous report, issued in October 2013, although the committee reasonably infers this may be partly attributable to improved understanding of the full scope of the requirements.

Recently, I have taken the opportunity to pose a provocative question to banking executives, some of whom are in charge of their institutions' BCBS 239 initiatives.

The question is preceded by my observation that Google does not make the web tractable and transparent by imposing rigid data standards, common data dictionaries and a fixed data taxonomy. As a result (I have asked), shouldn't banks – and the vendors supporting them – be exploring the technology on which Google's magic is based, and trying to apply it to the much smaller, less eclectic data of a banking institution?

The answers have almost always ranged from the evasive to the dismissive. Reasons for not undertaking such an effort include:

- Senior management will not pay for it.
- We cannot transform our systems; we have to keep running the bank.
- Our systems are getting better and we are ahead of most banks.
- We have too big an investment in our existing technology to change it.
- Our IT people will not buy it.
- We have security problems that Google doesn't.
- It's too big a step; such a change would be too risky.

In thinking about these responses, it suddenly occurred to me that they represent classic examples of addictive denial. Psychologists cite many common indications to show an addict is in denial, including the following six.

- Rationalising: "I don't have the time – or money – to get help." (Management will not pay for it.)
- Delaying: "Now is not a good time to stop." (We have to keep running the bank.)
- Comparing: "I'm not that bad and not nearly as bad as other people." (We are ahead of most banks.)
- Blaming: "It isn't my fault. You just don't understand my situation." (We have too big an investment in our existing technology. Our IT people will not buy it.)
- Situational justification: "My boss is making my life miserable." (We have security problems that Google doesn't.)
- Strategic hopelessness: "Since nothing works there is no use in trying." (It's too big a step; such a change would be too risky.)

To me, the argument that management will not pay rings particularly hollow. The three-year cost estimates for the affected banks to achieve BCBS 239 compliance by January 1, 2016, run into the billions. Numbers in the range of $100 million per bank are quite plausible. Unfortunately, it seems most of this money is being spent on the same technology and techniques that have failed to provide the desired agility and transparency in the past.

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> "It is well past the time for senior bank management to realise information technology is central to their institution's success or failure"

Sometimes banks protest they are in the business of lending money, not providing data services, and so they should not be expected to emulate a state-of-the-art technology company. Well, yes, providing loans and other financial services is the core of a bank's mission. Nevertheless, the day-to-day process of doing so involves gathering, organising and utilising data to ensure the decisions involved are founded on reliable information and coherent analysis.

In point of fact, effective data organisation and management lie at the heart of any bank's ability to fulfill this central mission. It is well past the time for senior bank management to realise information technology is central to their institution's success or failure.

It is sometimes said that education is too important to be left solely to educators. Similarly, technology is too important to a bank to be left to the techies. Senior management needs to assert the importance of data integration across their institution, and initiate trial projects to generate experience with leading-edge alternatives to the existing architecture and its relational databases (*Risk* January 2014, *www.risk.net/2387429*).

Unless banks formulate a transitional path to a better future, their information systems will be barely more fit for purpose in five to six years than they are today. Those who feel such a change is too risky are likely to learn that in times of dramatic and disruptive change, surrendering to inertia is the riskiest course of all. **R**

[1] *See* Basel Committee on Banking Supervision, Progress in adopting the principles for effective risk data aggregation and risk reporting, *January 23, 2015, available at http://www.bis.org/bcbs/publ/d308.pdf*