

IT Opportunities in the Banking Market

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ACR often fields requests for IT department data in the banking industry, and clients are often surprised how the market shakes out. What's surprising is the relatively small number of big banks, compared to the overall size of the market. The information in this report on the IT banking market does not attempt to define all the opportunities available in the banking market, but rather the number of opportunities and a few other bank market characteristics of interest to information technology product and service vendors.

The FDIC reports 8021 Depository Institutions (we'll call them banks) as of December 31, 2009 [1]. There are certainly a few hundred more banks that will fold, but the overall effect on the total market, from an IT opportunity standpoint, will not be profound.

Banks by Size

What's interesting about the banking market is the relative size of those 8021 banks, and how heavily the outsourcing vendors play in the market. Size, in the banking industry, is most commonly measured in assets, and here's how it plays out:

Assets	Number of Banks
\$1 billion +	677
\$500 - 999 million	715
\$200 - 500 million	1842
\$100 – 200 million	1941
\$99 million or less	2846

Understanding the market by assets will be important when we discuss some additional study results below. It's tough for us average folks to interpret exactly how assets can be applied to understanding IT market opportunities. Here's the market based on number of employees:

Number of Employees	Number of Banks
1000+	143
500 – 999	144
250 – 499	305
100 – 249	997
1 – 99	6423

Note: 16 banks are reported as having 0 employees.

Our primary market of interest for this exercise is banks with 250+ employees, of which there are 592. A bank with 250 employees will have, on average, gross revenues of \$80 million [2]. Banks, on average, spend about 8% of revenue on IT, so this would calculate out to about a \$6.4 million IT budget [3]. Based on an average IT budget dollar per IT employee of \$220,000 [4], this would come out to about 30 or more IT employees for banks with 250+ employees.

According to the FDIC there are 2,063,101 employees at the 8021 banks, with total assets at about \$13.1 trillion. The average assets per bank employee is therefore \$6.3 million, so a bank with 250 employees, on average, would be managing \$1.588 billion in assets.

A closer look at the FDIC data shows 439 banks with \$1.588 billion in assets (469 banks with \$1.5 billion in assets if you like round numbers). Add all this together and it shows a loose correlation between the number of banks over \$1 billion in assets and banks with 250+ employees. Here we are simply establishing the number of employees can be used as a viable proxy for assets.

IT Outsourcing Market for Banks

Outsourcing banking business processes and IT is big business, and because the application domain is complex and regulated most banks are not shy about outsourcing some functions. Fiserv, Inc. and Fidelity National Information Services, Inc. are the two major players in bank outsourcing.

On Fiserv's website they report that "among U.S. banks, more than one in three operates on a Fiserv bank platform." Fidelity took first place in terms of size of bank outsource companies with their acquisition of Metevante in 2009. It seems reasonable to assume they too service a substantial portion of the market.

Here are some highlights from a March 2008 *ABA Banking Journal* study on bank outsourcing[5]:

- Breakdown of banks that handle core processing internally (core processing is typically account transactions and other financial processing):
 - \$1 billion + = 60.5%
 - \$501 – 999 million = 52.1%
 - \$500 million or less = 42%
- Breakdown of banks that that have a full-time IT head:
 - \$1 billion + = 100%
 - \$501 – 999 million = 94.4%
 - \$500 million or less = 51.7%
- 56% of community banks (loosely defined as those with under \$1 billion in assets, based on an article on the FDIC web site) use internal staff as their chief source of tech expertise.
- 96% of banks with \$1 billion+ in assets use internal staff as their chief source of tech expertise.

The study did not correlate the existence of an IT head with organizations that outsource. However, the data indicates that 48.3% of banks with \$500 million or less in assets do not have a full time IT head, and 58% of that same group do not handle core processing internally. It seems reasonable to assume, based on these numbers, that no IT head probably means significant if not complete outsourcing.

IT Opportunities for IT Vendors and VARs

Most readers of this article are not in the “core processing” business, but rather various IT product and service businesses. While bank outsourcing of core processing is significant, that doesn’t mean they outsource internal systems infrastructure, management and maintenance.

Heather Yard is an independent IT marketing and sales consultant with first-hand experience in the bank outsourcing industry. Probably the most important information in this report, Heather indicates that while the big outsource players provide a broad portfolio of services, they are not in the business of managing internal IT departments or basic systems and processes. So, although big outsource companies play a major role in support of banking applications, banking is still a big market for IT vendors.

Banks are businesses too and require products, services, and support for basic business functions. Systems, network, software and services outside the outsource providers realm are all up for grabs, like any other business.

One of the cool attributes of the banking industry is that almost all employees are computer users, and the need for exceptional uptime and reliability are critical. It’s a market that, although cost conscious like everyone, is not willing to sacrifice access to technology for its employees.

IT Boss or Not - IT Side Sale or Business Side Sale

The most interesting data from the *ABA banking Journal* study is on the number of banks with IT heads. If a bank does not have an IT head, it seems likely that most, if not all, IT services are being outsourced. Systems maintenance, network management, email archiving, backup and recovery, and the litany of other IT products and services are all necessary for this market.

As reported above, there are 1392 banks with \$501 million+ in assets, and the data suggests that 94% to 100% of those have their own IT head. Of the remaining 6629 banks 3427 have their own IT head, and there are 3202 banks that have NO head of IT. Too bad we can’t tell them apart.

Generally in the IT business it’s pretty clear if a sale should be directed to business management or IT management. What about the 3202 banks with no IT boss? What may typically be an IT side sale is now a business side sale. Making a technical sale to a business manager is a different ball game and requires a different game plan.

Bank Data in the Market

At ACR we focus on the largest banks and are covering 434 IT locations for 354 banks. Finding IT execs for all banks is a bit of a challenge. I checked with four reputable sources of marketing data to see what they have. Where available we were careful to select only HQ/single site locations (not branches), and only primary SIC for SICs 6021, 22, 29, 35, 36 where available, and only one contact per site. Not all sources offer all that flexibility, so the comparison is totally apples to oranges. Here’s the numbers:

- Source 1: 12,000 to 14,000
- Source 2: 1,680 to 37,000
- Source 3: 880 to 71,000
- Source 4: 18,000

Clearly the variation smells bad, especially compared to the numbers reported by the FDIC. A good source for technology contacts may be available from the publishing industry, like *Bank Systems & Technology* magazine or the *ABA Banking Journal*. The issue with acquiring data from this type of source is that they operate on a controlled circulation business model, meaning that purchasing data for your own internal use is often not available.

It's an interesting market, but a comprehensive list of banks with IT data doesn't seem to be available. Please send information on banking data sources you may be aware of to the email address below.

1. FDIC data available at www2.fdic.gov/sdi/rpt_financial.asp.
2. *Fortune* magazine, May 4, 2009. Average revenue per bank employee calculated based on Fortune reported revenue and employment numbers.
3. *Information Week*, September, 2008. *Information Week* 500 issue.
4. ACR inside IT Departments, Applied Computer Research, Inc. Report available at www.itmarketintelligence.com/mo-reports.htm.
5. ABA Banking Journal, March, 2008. American Bankers Association, www.aba.com. Report available at www.nxtbook.com/nxtbooks/sb/ababj-compsurv08/index.php.

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