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RBS's tech wake-up call to banks

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Just a week after chancellor George Osborne unveiled his readiness to return Royal Bank of Scotland to the private sector, the lender has been hit by an IT glitch in a sign that technology problems could threaten its path to recovery.

RBS's latest systems problem has delayed some 600,000 payments into and out of customer accounts, only months after the state-backed bank was hit with a record £56m fine for technology failures.

The debacle is another stumbling block for the government as it plans Britain's largest privatisation at a loss to the taxpayer.

The chancellor conceded last week that selling the bank for less than the cost of RBS's 2008 bailout of 500p a share would see the taxpayer lose £7.2bn if sold at current market prices.

However, taxpayers are at risk of losing more if recurring IT problems continue to suppress the share price, which edged down on Wednesday to close at 347p.

The ongoing IT cost to the bank also serves as a deterrent for prospective investors as RBS shares are sold off, experts warn. One banks analyst said the problem "is about the technology spend, which is colossal because of the old systems".

RBS' technology failure comes after the bank was hit with the record fine last November after more than 6m customers were affected by a similar issue with its overnight processing systems in 2012.

Simon McNamara, chief administrative officer at RBS, said after the last incident that the meltdown was because of a botched systems upgrade which disrupted the way millions of daily payments were processed.

An error in the upgrade of so-called "batch processing systems" which every night work through about 20m payment transactions made through the day interrupted the process.

But the bank had assured customers the issues were resolved. Mr McNamara said at the time that improvements made since would "pretty much guarantee" there would not be a repeat incident of the same scale.

RBS said previously that it would spend an extra £750m over a three-year period on top of its annual £2bn investment to bolster the "security and resilience" of its IT systems.

Dmitry Bagrov, of global technology consultancy DataArt UK, said the recurring issue "should be considered a serious problem".

"We're looking at a major bank which has problems in technology. It's bad for the taxpayer, as the state will not get the price that it wants."

Paul Thomalla, of payments group ACI Worldwide, said the IT glitches at RBS are "a wake-up call for the whole industry" and another timely reminder that many of the City's IT systems are "a ticking time bomb".

"Many of the payments systems in our banks are ancient, they are creaking and breaking and are in urgent need of repair," he said.

However, a number of banks are "frightened" by the size and risk of updating their entire IT infrastructure, he added.

"Banks don't need to rip out all their old systems in one big bang and replace it with new technology but there are ways to upgrade IT infrastructure in 'bite size' chunks and to minimise the risks involved."

But the procedure is tough for banks with decades-old systems that are coming under increasing pressure as they launch online and mobile services to compete in the digital era.

Figures from the British Bankers' Association show mobile has overtaken branches and the internet as the most popular way to bank, with customers expected to check their current accounts on mobile devices more than 895m times this year.

Many of the banks' core systems, including RBS, were originally built for slower branch-based banking and overnight batch-processing of payments.

Some banks even run off pre-decimal systems, converting customer data in and out of pre-decimal pounds, shillings and pence, according to one person close to the process.

Nationwide is one of the few lenders to have overhauled its entire IT system, in a process that cost about £2bn.

Regulators will conduct a review of RBS's technology failures once customer payment delays have been resolved, according to a person close to the situation. The issue, however, will have longer-term repercussions for both the taxpayer and prospective investors, placing pressure on banks to update archaic technology systems.