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TECHNOLOGY

First Tenn. To Drop IBM For Fidelity

■ BY WILLIAM WADE

First Tennessee Bank plans to ditch its core processor of 14 years, International Business Machines Corp., to consolidate its outsourcing relationships under a single vendor, Fidelity Information Services.

Fidelity, which until April 1 was known as ALLTEL Information Services, announced Monday that it had won a five-year contract to take over the Memphis bank's information technology and item processing services. The Little Rock vendor currently handles First Tennessee's mortgage processing and commercial and consumer lending operations, and it will take over the rest in October.

"This is a more efficient way for us to spend our money. They know our business pretty well," said Patrick Ruckh, the chief technology officer at First Tennessee Bank, a subsidiary of First Tennessee National Corp.

First Tennessee's announcement came at a time when many large banks are trying to save money by consolidating their outsource relationships. In this respect, the larger banks are starting to behave a little more like community banks, which tend to turn to a single vendor for all their IT needs. While larger banks such as J.P. Morgan Chase & Co. and Bank of America Corp. signed big deals late last year, with IBM and Electronic Data Systems Corp., respectively, First Tennessee has opted to go with a vendor more closely

associated with running core systems for small banks.

First Tennessee had \$23.3 billion in assets at the end of the first quarter.

"It's very common at the community bank level to look at a single IT provider, but it has not been the case as you move up in scale," Mr. Hunt said. "It has not been the dominant trend in the regional banking market."

The bank will potentially be trading away some advantages that come with using the so-called best-in-breed applications, but it is gaining on the convenience front, said Robert Hunt, a senior research analyst at the market research and consulting firm TowerGroup, of Needham, Mass.

"Working with one vendor simplifies the process if you want to make some changes in your operations," he said. "It does help if you can consolidate with a single vendor."

Mr. Ruckh said the bank's current outsourcing agreement will expire this fall, and that it had already been in talks with ALLTEL this spring when the vendor's financial services processing division was bought by Fidelity National Finance Inc. of Santa Barbara, Calif. After the \$1.05 billion deal closed, the unit was renamed Fidelity Information Services.

"We really thought it enhanced the deal that Fidelity was taking over ALLTEL,"

Mr. Ruckh said. "There are a lot of opportunities for synergies now."

He would not discuss the financial terms of the deal, though he did leave the door open for agreements that would have First Tennessee outsource other areas to Fidelity. "Opportunities for discussion exist, and we are looking forward to a long and profitable relationship with them," he said.

The First Tennessee contract is one of the first for the new Fidelity unit, an entity so fresh that its Web site, while topped with the new name, is still using an ALLTEL Internet address.

Ernie Smith, co-chief operating officer for Fidelity National and president of its information services unit, said many banks are interested in working with a single outsourcing partner that can handle a variety of operations, which was part of the thinking behind the ALLTEL acquisition. "We've had several lenders ask us to broaden our offerings, so they can work with just one vendor," he said. "They say they would rather not have a la carte agreements with 10 different companies."

Mr. Smith said there will probably be further consolidation in the outsourcing industry as larger vendors begin to offer more services. "We've also been contacted by several niche companies asking if we have any appetite to acquire them," he said. "They can see the handwriting on the wall." ■