
BITS BULLETIN

A CURRENT REPORT OF ACTIVITIES FROM THE BANKING INDUSTRY TECHNOLOGY SECRETARIAT (BITS)

MAY 1, 1999

The BITS Bulletin is designed to keep the membership of The Financial Services Roundtable fully informed about the activities of The Banking Industry Technology Secretariat (BITS) and rapidly evolving developments in electronic commerce.

BITS MISSION

The BITS Mission is to foster the growth and development of electronic banking and commerce in an open environment that will encourage greater choice and efficiency in financial software, access devices, networks and processing capabilities for the benefit of financial institutions and their customers. Throughout its work, BITS will seek to enhance banks' roles as trusted intermediaries. BITS will facilitate development of superior market-driven technologies that will strengthen the bank-customer relationship, enhance bank brand value, and maintain banking's position at the heart of the payments system.

**BANKING
INDUSTRY
TECHNOLOGY
SECRETARIAT**

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: **LETTER FROM THE CEO**
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• BITS is moving aggressively ahead on several new initiatives. We are gratified by the
• positive response we received at the recent Roundtable annual meeting—and we
• recognize that it happened because of the support we've received from many all year
• long. In particular, I want to again thank Ed Crutchfield, Austin Adams and Lou
• Anne Alexander, all of First Union, for helping us to communicate more effectively
• and to better focus our efforts to gain the support of the Chairmen and CEOs.

• Special thanks go to the following Chairmen and CEOs for their public statements at
• the annual meeting in support of BITS and its work: Dick Kovacevich, Wells Fargo &
• Company (Immediate Past President of the Roundtable); Bob Gillespie, KeyCorp
• (President of the Roundtable); Jim Blanchard, Synovus; Bill Harrison, Chase
• Manhattan; and Bud Robinson, First American. Nothing communicates better than
• one Chairman to another. We appreciate the strong support while we recognize we
• have much work to do.

• The following challenges were aimed at our industry by some of the guest speakers at
• the annual meeting, and BITS was paying attention.

• Scott McNealy, CEO of Sun Microsystems, credited the banking industry with efforts
• to address e-commerce issues and technology needs, but, he advised against thinking
• of Internet banking as an "alternate channel" for delivery, along with telephones,
• ATMs and personal computers. Instead, he said, "Banks have the credibility,
• integrity, and brand to be a portal."

• During a BITS Special Briefing on an e-Commerce Framework, panelist Bill Burnham
• (Credit Suisse First Boston, and a leading industry analyst on e-commerce) described
• several "early 21st century battles." He said, "In the battle of the banks versus brokers
• online, the banks are behind because they are focused on cost-cutting and defensive
• marketing to existing customers instead of aggressively marketing and focusing on
• revenue growth." Banks must be offering solutions and not just transactions, he said, if
• they want to be competitive in the new era, or nonfinancial firms will step in to fill the
• void.

• W. Brian Arthur, economist at The Santa Fe Institute, at another BITS Special Briefing,
• called the "digital revolution" the deepest change in 500 years—since the creation of
• the printing press. The effects of this change on financial services are huge, he noted,
• as networks proliferate and trigger others around the world, creating a global market-
• place with customized products.

• BITS' agenda and budget for the coming fiscal year were endorsed unanimously at the
• annual meeting by both the BITS and the Roundtable boards. The new initiatives are
• described in this issue of *BITS Bulletin*.

Catherine A. Allen

BANKING INDUSTRY TECHNOLOGY SECRETARIAT

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Chair: Edward Crutchfield, First Union
Leslie Baker, Jr., Wachovia
James Blanchard, Synovus, *ex officio*
Spencer Eccles, First Security
Charles Gifford, BankBoston
Robert Gillespie, KeyCorp
Paul Hazen, Wells Fargo & Co.
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Thomas Labrecque, Chase Manhattan
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Martin McGuinn, Mellon Bank
Terrence Murray, Fleet Financial Group
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Frank Wobst, Huntington Bancshares
Charles Waterman, So. Holland Trust (ABA)
David E. Hayes, Security State Bank (ICBA)

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Marv Adams, Bank One Corporation
Peter Browne, First Union, *Security*
Christopher Callero, Bank of America
Michael Caughlin, First Security
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Libby Ghekier, Bank of America, *Standards*
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RECENT COMMENTS ABOUT BITS AND ITS PROGRAMS

"In 1998, Bank of America saved 10 dollars for every dollar spent participating in a shared fraud database."

Nancy Cloyd, Executive Vice President, Bank of America

"BITS' initiatives in the security area, particularly the Lab and information-sharing database, will save Citigroup at least \$600,000 starting in 1999 by reducing duplicative testing and increasing knowledge of potential security breaches."

Stephen Katz, Chief Information Security Officer, Citigroup

BITS ANNOUNCES FORMATION OF A SECURITY TECHNOLOGY LAB FACILITY AND INFORMATION CENTER

BITS is establishing a Security Technology Laboratory Facility and Information-Sharing and Analysis Center. The new facility in Reston, Virginia opens next month to enable financial services companies and technology vendors to work cooperatively to improve the "end-to-end" security of electronic banking systems and related technologies.

"The Lab will promote public confidence in the financial services industry's ability to prevent and respond to security-related incidents," said Edward E. Crutchfield, Jr., Chairman and CEO of First Union Corporation and Chairman of the BITS Board of Directors. "The capabilities provided by the new facility will save time and money in the process of evaluating the safety and validity of financial products and will allow us to better serve the customer," stated Crutchfield.

The BITS Laboratory Facility will be operated by Science Applications International Corporation's (SAIC) Global Integrity subsidiary, with funding from participating vendors, and is scheduled to open June 7, 1999. The major objectives of the facility are early product influence, risk reduction, cost reduction, and security functionality. This BITS Laboratory Facility will ultimately test security features and capabilities of pre-alpha, alpha, beta and commercial products in both stand-alone and distributed environments for select PC operating systems, browsers, servers, and applications software for electronic banking; anti-virus software firewalls; and end-to-end security systems.

Products will be tested for their ability to meet specific criteria pertaining to security attributes such as authentication, integrity, confidentiality, privacy, auditability and authorization. The Working Group, chaired by Dan Nealis, Senior Vice President, The Chase Manhattan Bank, has been formed to develop the testing criteria and product prioritization process and consists of representatives from 10 BITS banks.

In addition, the BITS Laboratory Facility will house a separately operated Information Sharing and Analysis Center (ISAC) to prevent, detect and respond to incidents critical to the safe and orderly functioning of financial services transactions. As recommended by the President's Commission on Critical Infrastructure Protection (PCCIP), the ISAC will develop and maintain databases on vulnerability, incidents, and security breaches for the financial services industry. It will establish an anonymous reporting mechanism, provide member alerts for specific breach updates, and an analysis capability for addressing identified vulnerabilities. A Working Group, chaired by Steve Katz, Chief Information Security Officer, Citigroup, has been formed to develop the requirements for the database. The Working Group is comprised of representatives from the financial services industry which includes banks, insurance companies, brokerages, third-party processors and the US Department of Treasury.

The BITS Security and Risk Assessment Steering Committee has responsibility for setting policy and directing the new Laboratory Facility. The day-to-day management of the Laboratory Facility will be conducted by Global Integrity, with support from Telcordia Technologies, formerly Bellcore, also an affiliate of SAIC. For more information, call Peggy Lipps, BITS Senior Director, at (202) 289-4322

Security and Risk Assessment Steering Committee

*Co-Chairs: Peter Browne, First Union Corporation
William M. Randle, Huntington Bancshares*

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PRIVACY DECISION TOOL IS AVAILABLE FOR BANK USE

The Privacy Decision Tool, developed by BITS in cooperation with IBM, will be available to bank members of The Financial Services Roundtable in early May, 1999. The tool will be demonstrated at the BITS Industry Forum on "Consumer Privacy and Financial Services" to be held on May 12 in Chicago. The full agenda for the BITS Industry Forum and registration materials are inserted in this issue of the *BITS Bulletin*. In addition to "hands-on" use of the tool and the opportunity for "one-on-one tutorials," extensive educational support materials will be provided to participants in the Forum. For additional information, contact Cheryl Charles, BITS Senior Director, at (202) 289-4322.

**Research and Communications Steering Committee
Privacy Working Group**

Chair: Gary Roboff, The Chase Manhattan Bank

TASK FORCE IS ADDRESSING MOST PROMISING ELECTRONIFICATION ALTERNATIVES

The Electronification Alternatives Task Force was established to focus on next steps beyond electronic check presentment (ECP)—fully recognizing that overall success is contingent upon achieving critical mass with ECP. Many promising electronification alternatives are emerging in the payments environment. One of the first steps of the Task Force has been to identify the range of activities and projects currently underway. The Task Force is now creating a "map" to show visually where in the payments process these electronification alternatives fit. Weighted criteria are being developed as part of the Task Force's process to evaluate the benefits associated with these alternatives—including their capacity to encourage the elimination of paper checks from the payments process at the earliest possible point. Representatives of ECCHO, NACHA and The Federal Reserve Board and Banks are working actively with the banking members of this Task Force to mutually develop the Task Force's deliverables. Recommendations will be made for Board action by September, 1999.

Electronification Alternatives Task Force

*Co-Chairs: John Beran, Comerica
Janet Smith, Wachovia*

Clarification: An article on "Retail Industry Issues with Banks Regarding Payments and E-Commerce" in the April '99 issue of *BITS Bulletin* should have stated that it was Kroger/Fred Meyer alone that deposited 183 million checks annually—not the food retail industry.

SHARED UTILITIES PROJECT IS ONE OF BITS' HIGHEST PRIORITIES

The BITS Board of Directors unanimously approved the Shared Utilities project as one of its four highest priorities between now and September, 1999. Leveraging the effectiveness of existing utilities and making recommendations concerning the potential need for new utilities are among the areas of focus for the project. Initiated as a special project of the BITS Advisory Group, the project will now come under the auspices of the Industry Infrastructure and *de novo* Steering Committees. Additional information will be provided in future issues of the *BITS Bulletin*.

Industry Infrastructure Steering Committee

*Co-Chairs: Austin Adams, First Union Corporation
Webb Edwards, Wells Fargo and Company
Joseph Sponholz, The Chase Manhattan Bank*

De Novo Steering Committee

*Chair: Frank Jaffe, BankBoston
Allan Woods, Mellon Bank*

Shared Utilities Project

Chair: Michael Zucchini, Fleet Financial Group

**COST/BENEFIT ANALYSIS
SELECTED BITS PROJECTS**

Initiative	BITS Cost	Annual Industry Savings/Benefit
Fraud Reduction	\$0.5M	\$1B
Electronic Check Presentment (ECP)	0.5M	2B
Online Payment Specifications/IFX	0.9M	0.5B
Security Technology Lab Facility	1.2M	0.3-1.5B
Shared Utilities	1.2M	3B+

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BITS PROFILE

Edward E. Crutchfield, Jr. is the Chairman and CEO of First Union Corporation, and the Chairman of the BITS Board of Directors.

This is a continuing series of interviews with members of the BITS Board of Directors, BITS Advisory Group and other key leaders in electronic commerce and financial services.

The following is excerpted with permission from an article, "First Union CEO Rallies Top Execs on Tech Issues," by Jeffrey Kutler, which appeared in the *American Banker*, April 21, 1999.

Though he may be one of the last to admit how much technology has changed his life and his job, Edward E. Crutchfield, Jr. has turned into one of the banking industry's most effective technology advocates.

The First Union Corp. chairman just embarked on his second year as chairman of the Banking Industry Technology Secretariat (BITS) with unanimous support from his peers at other major banking companies—both for his leadership and for what the BITS staff and committees accomplished in recent months.

When the Bankers Roundtable...held its annual meeting this month, the technology spin-off "was pretty much front-and-center over two days," Mr. Crutchfield said... "A wide open, town-meeting-type discussion" about BITS with the full roundtable membership rated a "10 on a scale of 1 to 10," he added.

BITS—with projects under its belt in such areas as technical standardization and fraud reduction, and with plans to hone industry-wide strategies while lowering shared costs—thus lives for another year... First Union's chief executive officer has been won over and is spreading the religion...

"Hanging together on the issue of technology has been totally BITS' doing," Mr. Crutchfield said last week. That made him more than happy to be chairman, a role he expects to relinquish in a year. His job description: "To be the link between the technology people and the CEOs who are not technology experts, to bridge that gap, to hold us together as an industry when dealing with the Bill Gateses of the world, the Checkfreees, anybody who thinks they might be able to come in and pick off pieces of our business."

The budget was cut by 25%, to \$3.9 million, but to Mr. Crutchfield and others, that is part of the good-news story. Even matters of strategic importance and survival must reflect the cost sensitivities of dues-paying members, and BITS was never supposed to take on a self-perpetuating, trade-association kind of life...He and the staff under chief executive officer Catherine A. Allen now routinely present cost-benefit analyses that go a long way toward explaining the support BITS has been enjoying.

If some Bankers Roundtable members question where their dues assessments go...Mr. Crutchfield goes to what he calls "the heart and soul of the matter." For example, BITS' work on a fraud reduction program and the automation of certain check-clearing functions, or electronification, will cost BITS

members about \$1.1 million. But the industry can anticipate projected annual savings of up to \$3 billion when the programs are in place.

BITS said a typical \$10 billion bank would save \$1 million in the first year, \$5 million in the fifth. First Union, 24 times that size, would save \$8 million to \$9 million in Year 1, \$33 million in Year 5. "We are getting hundreds of dollars of return on pennies spent," Mr. Crutchfield said.

But there are, in these assumptions, what economists call network effects. They require maximum participation to maximize the shared benefit, and that leads to another part of the job that Mr. Crutchfield takes seriously.

"I don't like a lot of meetings, organizations, or even trade associations," he said. "But I have a heightened awareness of the importance of everybody playing. It is not just a one-bank issue, and this is one of the few times in the banking business that [cooperation] is an important factor. There is an incentive for everyone to play..."

Mr. Crutchfield pondered the rare moment in banking history that gave rise to BITS. Industry consolidation enabled a relatively small number of industry leaders to "make things happen," he said, yet a maze of payment systems and clearinghouses could not be restructured or streamlined without buy-in from institutions of all sizes and interests.

Then there was what he and other chief executive officers on the BITS board...have come to regard as the 1994 "wake-up call," when the Internet started to be talked about as a business channel, and Microsoft chairman Bill Gates called banks "dinosaurs."

Over the following year and a half Mr. [Frank] Wobst [of Huntington Bancshares]... and other influential, technology-savvy bankers laid the groundwork for BITS. They required board members to be in one of the top two positions at their banks. And they reached out to other constituencies, giving board seats to representatives of the American Bankers Association and the Independent Community Bankers of America, who are both from small banks...

Mr. Crutchfield conceded that questions are looming over BITS' horizon. He wondered if "the convergence of banking, insurance, investment banking, credit cards, etc." will "sharpen issues" or raise different ones that may be out of BITS' current bailiwick... BITS "has a full plate for the next year," Mr. Crutchfield said. "If it was just make-work, we'd disband it. But we are probably several years from that point."