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# BITS BULLETIN

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A REPORT OF ACTIVITIES FROM BITS, THE TECHNOLOGY GROUP FOR THE FINANCIAL SERVICES ROUNDTABLE

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JULY 1, 1999

The BITS Bulletin is designed to keep the membership of The Financial Services Roundtable fully informed about the activities of BITS and rapidly evolving developments in electronic commerce and payments.

## 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 financial institutions' roles as trusted intermediaries. BITS will facilitate development of superior market-driven technologies that will strengthen the financial service customer relationship, enhance brand value, and maintain the industry's position at the heart of the payments system.

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BANKING  
INDUSTRY  
TECHNOLOGY  
SECRETARIAT

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## LETTER FROM THE CEO

A recent major report by the U.S. Department of Commerce on the web-based economy affirms that "electronic commerce will be the engine for economic growth in the next century." *The Emerging Digital Economy, II*, the second in a Commerce Department series of three, predicts that, "By 2006, almost half of the U.S. workforce will be employed by industries that are either major producers or intensive users of information technology products and services."

Such statements underscore the importance of leveraging e-commerce and technology for financial services, which BITS was created to do. The opening of the BITS Financial Services Security Laboratory on July 28<sup>th</sup> is an appropriate and very public demonstration of our industry's commitment to ensuring the highest standards of safety and soundness in electronic commerce and banking. This notable achievement also is the result of months of work and planning by many people from the federal government, the technology sector, financial services, and other private enterprises. Bringing the Lab to life illustrates again the importance of the collaborative approaches that BITS has taken in all of its major initiatives.

It is a personal pleasure to recognize the talents and efforts of the BITS Security and Risk Assessment Steering Committee, led by co-chairs Bill Randle, Huntington National Bank, and Peter Browne, First Union Corporation, whose leadership and diligence have made the BITS Security Lab a reality. Dan Nealis, Chase Manhattan Bank, who chairs the Lab Working Group, and Steve Katz, Citigroup, who serves as our industry's representative on the Financial Services Information-Sharing and Analysis Center (FS/ISAC), also deserve much credit for their hard work. I also want to acknowledge Peggy Lipps and Faith Boettger, talented and dedicated members of the BITS staff, who have driven this project.

Global Integrity Corporation/SAIC has been a real partner in getting the Lab off the ground so quickly. Special thanks to Harvey Weiss, CEO; Byron Yancey, Bill Marlow, and Anish Bhimani for their work in getting the Lab started.

Invitations have been sent to more than 400 people to help celebrate the July 28<sup>th</sup> grand opening of the BITS Financial Services Security Laboratory at the facility in Reston, Virginia. We have acceptances from key officials to speak, including Senator Robert Bennett, an acknowledged technology expert in Congress, and former Senator Sam Nunn, who now actively "campaigns" for security of information technology. Tours of the Lab will be offered following the midday ceremony, and a briefing on Capitol Hill has been organized by The Financial Services Roundtable to occur later that day. Please join us in celebrating this important event for BITS, for the financial services industry—and for e-commerce.

*Catherine A. Allen*

# BANKING INDUSTRY TECHNOLOGY SECRETARIAT

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## **COMMENTS FROM THE CHAIRMAN OF THE BOARD**

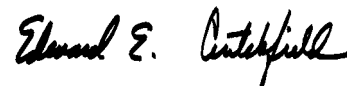
Earlier this year, I agreed to serve a second term as Chairman of the BITS Board of Directors. I decided so because I think BITS is making a difference for our industry. The recent changes at the Roundtable to broaden our scope to serving the entire financial services industry are on point and they illustrate why BITS and its work are so important.

We have several “hot” topics before us at the moment. Most prominent perhaps is the impact of consumer privacy concerns. We must make sure that our customers know that we have established policies for the appropriate use of customer information, have published these policies, and are following these policies in our practices. Roundtable CEOs received a BITS Alert on June 17<sup>th</sup> on this issue, offering recommendations on actions to take. BITS is also working on a new phase of privacy research to help banks educate customers about banks’ traditional role as trusted guardians of customer assets—and also about the potential benefits from the appropriate use of customer information in meeting financial needs.

I wrote to the Roundtable membership on June 22<sup>nd</sup> on another matter with significant potential impact on our industry. The BITS Shared Utilities Project has been endorsed by both the BITS and Roundtable Boards, and is designed to rationalize a “patchwork quilt” of existing bank-owned organizations which perform a standard, shared-operating function for directly competing firms. By “shared industry utilities,” we mean entities like VISA, CHIPS, and ATM/EFT/POS networks. The U.S. banking industry has far more of these organizations than any other industrialized nation.

The Shared Utilities Project will focus initially on rationalizing the current check processing systems. We believe that a BITS-led effort, backed by the commitment of the CEOs of the nation’s largest banks, will drive this to a successful outcome. The potential annual industry savings for all phases of the broader Shared Utilities Project is estimated to be \$3 billion or more. We’ll stay in touch.

A third item for comment is the grand opening of the BITS Financial Services Security Laboratory on July 28<sup>th</sup>, followed by a special briefing and reception for Members of Congress. Since the beginning of this year, the BITS staff, led by the Security and Risk Assessment Steering Committee, has been involved in long hours and intense efforts to make this facility a reality. Those efforts are paying off in an endeavor that positions financial services companies in the vanguard of working to ensure the highest standards for the security of electronic banking and commerce systems—for the benefit of our customers. My hat’s off to Co-Chairs Bill Randle, Huntington National Bank and Peter Browne, First Union; and to Dan Nealis, Chase Manhattan, who chairs the Lab Working Group, and Steve Katz, Citigroup, who is industry liaison for the FS/ISAC—along with Catherine Allen, Peggy Lipps, and Faith Boettger, who have led the BITS staff in this important effort.



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

**Speakers at BITS Security Lab Opening Include Senators Bennett and Nunn**

The grand opening of the BITS Financial Services Security Laboratory will be held on July 28<sup>th</sup> in Reston, Virginia. Among the dignitaries participating in the opening ceremony are Senator Robert Bennett (R-Utah), former Senator Sam Nunn, and Richard Clarke, National Coordinator of the National Security Council. Senator Bennett is the chairman of the Senate Special Committee on the Year 2000 Technology Problem; a member of the Joint Economic Committee, and of the Senate Banking, Housing and Urban Affairs Committee. Former Senator Nunn is now an active proponent of information security, including educational efforts through the Sam Nunn Policy Forum at the Georgia Institute of Technology.

In addition to bank CEOs and senior security officers, representatives of the Department of the Treasury, the Office of the Comptroller of the Currency, The Federal Reserve, the Department of Justice, and major technology vendors are also expected to participate in the program.

Roundtable Chairman Robert Gillespie, KeyCorp, will open the day's program with welcoming remarks. Other bank CEOs on the program include James Blanchard of Synovus and Spencer Eccles, First Security. BITS CEO Catherine Allen will moderate the program, with members of the BITS Security and Risk Assessment (SRA) Steering Committee and Lab Working Group to be recognized.

A Capitol Hill briefing-reception on the BITS Security Lab for Members of Congress has been organized by The Financial Services Roundtable to occur later in the day, beginning at 5 p.m.

William M. Randle, Executive Vice President, Huntington National Bank, and Co-Chair of the BITS SRA Steering Committee says, "The establishment of the Security Lab is one of the most specific ways the industry can move toward meeting the requirements of the Office of the Comptroller of the Currency (OCC) Bulletin (98-38) on technology risk management in PC Banking." He adds that, "This effort will promote and facilitate a more sound, secure channel for electronic commerce that will accelerate the growth and acceptance of doing business on the Internet."

The BITS Financial Services Security Laboratory will enable financial services companies and technology vendors to work cooperatively to further strengthen the security of electronic banking and commerce systems and related technologies.

The Lab Working Group is intensifying efforts to finalize the business model and other legal agreements; to complete product prioritization and define criteria; and to fully develop the testing process and the BITS-Tested Mark.

Tours of the new Lab, operated by Global Integrity, a subsidiary of Science Applications International Corporation (SAIC), will be featured on July 28<sup>th</sup> and major news media coverage is anticipated.

**Lab Vendor Meeting on July 21 Features EBP/P Products**

The first BITS Lab Technology Providers meeting will be held on July 21<sup>st</sup> in San Jose, California at the Fairmont Hotel. A select group of vendors from the Electronic Bill Presentment/Payment (EBP/P) and banking applications arena have been invited to meet with members of the SRA Steering Committee and representatives of Global Integrity. It will be an interactive session aimed at validation and marketing of the Lab concept, membership levels and value propositions.

The BITS-Tested Process, including a BITS-Tested Mark, will be discussed with the vendors. The intent is to certify testing of security-related technology against established criteria. For banks and vendors alike, the BITS-Tested Process at the laboratory will provide an unbiased third-party evaluation, with product testing to meet common criteria. The BITS-Tested Mark will be given upon successful completion of the testing cycle, indicating the overall security level for the product. Mark issuance will be posted on the BITS Web site.

Peter Browne, Senior Vice President, First Union Corporation, and Co-Chair of the BITS SRA Steering Committee, explains that, "Creating a BITS-Tested Mark of certification establishes a process providing every vendor and financial institution with a baseline for evaluating all products, both existing and planned. In addition, the process will help eliminate much of the redundancy in vendor product-testing with individual financial institutions." Lab Working Group Chair Dan Nealis, Senior Vice President, Chase Manhattan Bank, adds "Our goal is to provide financial institutions and product vendors with a consistent and meaningful set of security tests. We will be asking for input from the vendor community, and ultimately from the brokerage and insurance industries, to help in this process."



• **WORKING GROUP UPDATES** •••••

• **BITS Issues CEO Alert on**  
• **Information Sharing**

• The June 17<sup>th</sup> BITS Alert sent to Roundtable CEOs  
• dealt with consumer privacy issues relative to the  
• heavily publicized lawsuit against US Bancorp. The  
• Alert urges CEOs to take immediate action to  
• ensure that internal bank practices are consistent  
• with what is communicated to customers about  
• information sharing. The BITS Alert made other  
• recommendations about public relations and  
• customer relations aspects of this issue, in addition  
• to ensuring that the bank has developed policies  
• and principles to govern information sharing—and  
• has posted these policies appropriately.

• BITS and the Roundtable have been actively  
• addressing the “privacy” issue since its inception, led  
• by bank members and working with other bank  
• trade organizations through the Cross-Industry  
• Privacy Steering Committee. The BITS Research  
• and Communications Steering Committee devel-  
• oped the Privacy Decision Tool that many  
• Roundtable banks are now using to determine the  
• cost-benefit implications of various scenarios  
• involving changes in management of consumer  
• information.

• More than 40 representatives of Roundtable banks  
• participated in the one-day BITS Industry Forum,  
• “Consumer Privacy and Financial Services,” on May  
• 12, 1999 in Chicago. Hands-on demonstrations of  
• the Privacy Decision Tool developed by BITS, with  
• IBM, were featured, with one-on-one tutorial  
• sessions available. Leading industry representatives  
• and government officials addressed the forum on  
• the current legislative and regulatory environment  
• (domestic and international), consumer benefits and  
• preferences for information use, and various private  
• sector initiatives involving consumer privacy.

• The Privacy Decision Tool is now in the hands of  
• 40 Roundtable banks. The first version was sent in  
• May to banks requesting it. A few refinements were  
• made recently in the “cross-sell” section of the Tool  
• so a revised version was sent out, on disk and  
• password protected, on June 4<sup>th</sup>. If your bank has  
• not yet received the Tool, contact Cheryl Charles,  
• BITS Senior Director, 202/289-4322, to request it.

• The Research and Communications Steering  
• Committee has identified the next step in its efforts  
• to help the industry address privacy concerns. It is a  
• project to develop a research-based message strategy  
• for banks which leverages the industry’s role as a

trusted guardian of personal, confidential informa-  
tion. First deliverables will be produced this  
summer. Wide bank participation is welcome in the  
project. Contact Cheryl Charles for details. The BITS  
Research and Communications Steering Committee  
is Chaired by Gary Roboff, Chase Manhattan Bank.

• **Phase Two of the Shared Utilities**  
• **Project Moves Ahead**

The second phase of the Shared Utilities Project,  
endorsed by the BITS Board of Directors in April, is  
focusing on two pieces of work: the rationalization  
of check processing systems and clearinghouses; and  
the development and evaluation of architecture and  
design principles for shared financial service organiza-  
tions.

BITS Chairman Edward Crutchfield, Chairman and  
CEO of First Union Corporation, wrote to  
Roundtable members recently to point out the need  
for a high level of CEO support for the Shared  
Utilities Project. In a June 22<sup>nd</sup> letter to the BITS and  
FSR Boards of Directors, he emphasized that the  
BITS Board approved this initiative to rationalize  
shared industry utilities—with annual industry  
savings estimated at \$3 billion or more to be realized  
by completing all phases of the Shared Utilities  
Project. He asked CEOs to commit to this project in  
the same way that they did to the BITS Fraud  
Reduction and ECP initiatives.

A core team of bankers has been created to guide the  
check processing rationalization effort. Jerry Cham-  
bers, Bank of America, chairs this team, which will  
work in conjunction with BITS’ Electronification  
Alternatives Task Force to ensure that cost is driven  
out of the paper system and new technologies for  
electronification are explored. The team met on June  
17<sup>th</sup> in Chicago and identified substantial savings to  
be realized from the check processing effort. The  
potential industry savings—for banks of all sizes—  
will be quantified for the BITS Board at its Septem-  
ber meeting.

In the work to develop and evaluate shared utilities  
architecture and design principles, the Project team  
will leverage knowledge from current successful  
international structures and shared banking organiza-  
tions outside of the U.S.

**Industry Infrastructure Steering Committee**  
*Co-Chairs: Austin Adams, First Union*  
*Webb Edwards, Wells Fargo*  
*Joe Sponholz, Chase Manhattan*  
*Allan Woods, Mellon*

## WORKING GROUP UPDATES

### **Task Force on Check Electronification Alternatives Reports Progress**

The mission of the Electronification Alternatives Task Force is to eliminate paper as early as possible in the check processing system through electronification—while acknowledging that paper checks will still be the payment choice of some.

The project will define payment models; catalog and map check electronification projects under these payment models; determine financial impact; apply criteria to evaluate the feasibility and market acceptance of the payment models; and will then make recommendations.

The Task Force has begun mapping three major payment models (ACH, ECP, and electronic debit) against the traditional check-processing model, and has formed three Working Teams for each model. These efforts will include cost analysis of each model, impacts of various options, as well as overall industry impact. It was noted that the role of merchant and consumer acceptance will be a factor in this activity, and that the Task Force will seek input and collaboration with retail organizations, particularly through a focus group.

The mapping activity will also utilize information from the cataloging phase of the project to determine where there are gaps and redundancies. The Task Force has compiled a list of existing and emerging check electronification projects and is soliciting information on additional projects.

#### **Electronification Alternatives Task Force**

*Co-Chairs:*

*John Beran, Comerica  
Janet Smith, Wachovia*

## ONGOING INITIATIVES

### **Electronic Check Presentment (ECP)**

*Chair, Michael Pasiecki, Chase Manhattan*

The last of the BITS ECP Education Forums, organized by ECCHO, was held in Chicago on June 7 - 8, 1999. The Forums provided bankers with detailed background about ECP as well as details on implementation. Future forums are under consideration. To track implementation, ECCHO, at BITS' request, has sent out a survey to banks requesting two types of data: (1) baseline data for overall check

volume— reported twice each year, and (2) ECP volume via a correspondent, and ECP volume via the Federal Reserve — reported on a monthly basis. The goal of the survey is to be able to report on the percentage of ECP volume for each individual bank and to provide overall ECP data for the banking industry.

### **Fraud Working Group**

*Chair, Nancy Cloyd, Bank of America*

The Fraud Database Subcommittee in its May 26<sup>th</sup> meeting listened to vendor presentations and discussed whether any of the database-type products and services could be leveraged for the creation of the Subcommittee's "people" database.

The Electronification Subcommittee is addressing fraud risk management associated with alternative methods of delivery services, such as the Internet and debit cards.

The Statistics Subcommittee reported excellent participation on the Regional Roundtable quarterly call to discuss regional fraud statistics; quarterly statistics will soon be available.

The Successful Strategies Subcommittee is discussing next steps for the numerous "successful strategies" shared among the Fraud Working Group during its May meeting. Educational programs will be developed.

A newly formed Retailer Subcommittee was chartered to identify common interests where banks and retailers can work together to combat fraud. A forum will be held in early September for retailers and Fraud Working Group members to share information and openly explore ways of collaborating to address fraud losses.

### **IFX Forum**

*Chair, Kit Needham, BITS Senior Director*

All the major banks and technology providers who participated in the development of the IFX home banking specifications are on-board with the implementation plans for this new industry standard. A formal statement is soon to be released from BITS, affirming that the rapid completion of the IFX protocol is the top priority in facilitating the adoption of a single standard for interoperability in the financial services marketplace.

**Gary S. Roboff** is Senior Vice President and Electronic Commerce Executive at The Chase Manhattan Bank, where he is responsible for the planning and execution of electronic commerce strategy in Chase's credit card business and for directly managing key emerging payment products. He serves as Chair of the BITS Research and Communications Steering Committee.

*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.*

**BITS: In the current debate about privacy of consumer information, we don't hear much about benefits for the consumer in the appropriate use of information. What technologies and policies are currently being employed by banks to enable a customer to receive such benefits?**

**GSR:** The beneficial aspects of information sharing are often overlooked in the heated debate on privacy of consumer information—or they are made to appear less important in comparison to the so-called risks of privacy violation. I think our industry needs to pay more attention to the positive aspects of information and not take it for granted that customers understand all the dynamics, especially in the current atmosphere.

That is why BITS has begun a new effort to help the industry develop effective “language” about this issue. We are developing messages that speak more to consumers' needs, that assure them that banks understand the privacy “hot buttons” and will deal responsibly with information as a means of providing real value to customers. We believe that we can help banks be more clear and more forceful in describing the customer service advantages of using information appropriately for many financial needs. For example, it's a form of economic leveraging for the bank customer to make it clear when applying for an auto loan or a credit card that he or she already has a relationship with the bank through other accounts.

As more and more customers seek the convenience of one-stop financial service, they will find that banks are increasingly relationship-pricing products and services. This benefits the customer while the bank realizes operating efficiencies. Of course, customers still have the ability to control information sharing in this relationship, but they are empowered by being fully informed about all their options—and the consequences of opting out or sealing off information.

From a marketing perspective, it is imperative that customers be made aware of new products that are relevant to their financial needs. The right kind of information use and systems capabilities can improve a bank's understanding of customer needs and its ability to deliver the right products at the right time.

The tools that we employ to secure data have become more sophisticated. In the mechanics of keeping information safe, I would say that 99.9% of financial institutions do a wonderful job. But the perception that today seems most troubling to our industry is that we are not doing what we can to safeguard our customers' information assets. And that too is something we want to help banks be more clear about. The majority of financial institutions have had for some time self-imposed policies and practices to govern information sharing—and they have good internal auditing processes in place to maintain compliance and congruence. It is the way banks traditionally have operated for decades in protecting customers' assets and the way banks will continue to protect customers' assets.

**BITS: Banks have, as you say, a tradition of being viewed as trusted guardians as well as being a highly regulated industry. How do you think that these strengths are relevant to the current dialogue about banks and their handling of customer information?**

**GSR:** Again, I think that our industry could do a better job of educating our customers that we have for decades been operating business systems with minutely crafted controls at levels that don't exist in other businesses in the economy. This is a function of our control culture and our role as financial intermediary. Banks, more than anyone else in the commercial environment, are naturally motivated to keep assets private and safe, and that means physical assets, economic assets, and information assets. The banking industry is highly regulated, and much of it self-regulated. The increase in electronic commerce has not changed banking's traditional orientation of stewardship of all kinds of assets. It has meant that we have had to develop new technologies and standards to manage risk in the evolving electronic commerce marketplace. We will continue to protect our customers' assets—assets of all kinds, in all delivery systems—as we continue to protect our own risk exposure in all avenues of commerce.