
BITS BULLETIN

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

JANUARY-FEBRUARY 2001

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 MANDATE

- Facilitate the growth of electronic commerce
- Facilitate development of superior, market-driven technologies
- Maintain the financial services industry's role at the heart of the payments system as e-commerce evolves
- Sustain consumer confidence and trust by ensuring the safety, soundness, privacy and security of financial transactions
- Leverage resources and infrastructure across the industry



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· LETTER FROM THE CEO

· In January, it is customary to look both backwards and ahead—inspired by the Roman god Janus, who is depicted with two faces looking in opposite directions. We began the year 2000 with some relief and much bemusement about what had *not* happened with Y2K disaster predictions. We quickly turned our attention to something called “screen scraping,” now called aggregation services, which seemed to have great potential for both good and bad effects on the financial services industry—depending on how it was perceived and practiced.

· Our attention then shifted dramatically to the threats posed by computer hackers when several major commercial websites were temporarily put out of business in February. Business method patents began to enter the mainstream of e-commerce parlance and procedure, representing a big challenge to private industry and the federal government alike. A few months later, a new law was passed to make electronic signatures as valid as pen on paper, with widespread ramifications for our industry.

· All the while, the world was increasingly going wireless and we had to have a plan for mobile e-commerce. The security and privacy concerns of handling customer information and protecting data systems have remained constant—a fact of doing business in the global online marketplace.

· BITS’ current initiatives address all of these developments—and others on the horizon. The BITS **Aggregation Services** initiative will soon produce industry guidelines that are the result of a consensus-building process that endured many changes and detours in the financial aggregation services market. Our **Wireless Technologies** Working Group has worked quickly to produce three versions of an industry Request for Information (RFI) which will help drive standards for mobile financial services, ensure better security for wireless transactions and promote business opportunities for financial institutions.

· BITS’ **Business Method Patents** Working Group collaborates with the US Patent and Trademark Office and other industry groups to assess patent claims and increase safeguards for the financial services industry’s intellectual property.

· Our Security and Risk Assessment (SRA) Steering Committee is heavily involved in cyber-security initiatives, working with the leading computer security and information technology entities in the country. The **BITS Financial Services Security Lab** is testing financial and e-commerce security products at various levels, strengthened by the membership of technology partners like Hewlett Packard, Sun Microsystems and Deluxe/eFunds. The SRA also leads industry efforts to assess the impact of **E-SIGN**, the law authorizing electronic signatures and documents—as well as driving standards and practices to maintain security and privacy with **service providers or outsourcer relationships**.

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BITS

FINANCIAL SERVICES
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COMMENTS FROM THE CHAIRMAN OF THE BOARD

We've been hearing a lot about the demise of the dot.coms. While many of us have had our doubts all along about the reported successes of the dot.coms, it makes sense to question the current press reports of how bad it is and what it means for our businesses. It's important to recognize that e-commerce is here to stay—regardless of the number of Internet companies that survive or fail. My view is that some “traditional” business wisdom is now coming into play and that even Internet companies have to ultimately pay attention to the bottom line and shareholder earnings. I see these recent developments as “the inevitable shakeout” as the virtual world of business meets the real world of business.

By now, most of us have adopted business models for both worlds—traditional financial services within the context of global e-commerce. I believe that our financial services industry is making great strides to be where it ought to be.

BITS and its initiatives are helping us to develop these new business models. One key initiative involves protecting our intellectual property. The BITS Business Method Patents Working Group has begun an interactive educational process involving leaders in our industry and representatives of the U.S. Patent and Trademark Office (PTO). One objective is to help the PTO develop a library of “prior art” to better assess claims for **business method patents**, especially those relevant to the financial services industry. The importance of this initiative is evidenced by one inventor's claims for patents on a range of technologies that are frequently used in automated call systems. He recently settled a long-running dispute with AT&T for an undisclosed, but reportedly large, amount. These types of claims present a significant challenge to our e-commerce progress and we need to be better educated and prepared to deal with them. If your institution is not participating in this BITS Working Group, I urge you to get involved.

BITS has a group reviewing the impact of the new E-SIGN law. **Electronic signatures** and storing of electronic documents require that we make infrastructure changes and investments, which will ultimately bring great cost savings. Authenticating, or verifying, a customer's identity for business transactions is nothing new for our industry. Performing authentication for e-commerce is where the attention is now focused.

BITS will host an **Authentication Forum**, “Securing the Future of E-Commerce for the Financial Services Industry,” on February 13th in Phoenix, Arizona. The Forum will bring together members from the business as well as technology sides of the financial services industry to address the business needs of electronic authorization of customers in e-commerce. Emerging technologies, such as biometrics (fingerprinting and optical scans, for example) will be explored, along with legislative and regulatory developments. I hope you will join us at the Forum, but space is limited, so call the BITS office to register.

We welcome your comments on what we're doing and invite your participation.
Sincerely yours,



James H. Blanchard
Chairman and CEO
Synovus Financial Corp.
Chairman, BITS Board of Directors

Aggregation Services

Following the second BITS Industry Forum on Aggregation Services on November 8th, the proposed industry guidelines have been carefully vetted internally by BITS Working Groups. January 25th was the last day for internal comments on these voluntary business guidelines for financial aggregation services. A March 8th BITS Aggregation Services Working Group meeting in Washington, DC, will allow new members to participate in the next phase of work.

A public rollout is planned for the first quarter, with the Aggregation Services Guidelines to be released initially through posting on the BITS website for public comment. Final recommendations will be presented to the BITS and Financial Services Roundtable (FSR) Boards for endorsement at the April 2001 Annual Meeting.

Since the BITS initiative on Aggregation Services began last year, key changes in the aggregation services market have occurred, reflecting increased volumes of accounts and growing participation by financial institutions in offering aggregation services. In addition, the industry is moving rapidly toward data feeds and other "post-screen-scraping" technologies. These market shifts have prompted the Working Group to amend and complete Phase I as they move quickly into Phase II issues. Compliance issues and ongoing governance concerns are being revisited in light of the rapidly changing environment and technologies of aggregation services. For more information, contact Leslie Mitchell, BITS, 202.289.4322, Leslie@fsround.org.

*Aggregation Services Working Group
Co-Chairs: Stephen Katz, Citigroup
Gayle Wellborn, First Union*

Wireless Technologies

The final versions of the BITS Mobile Financial Services Requests for Information (RFIs) were distributed on December 21st, culminating months of effort by the members of the BITS Wireless Technologies Working Group and Subgroups, the Telcordia team and a few hearty volunteers. Responses to the RFIs will help to determine key business applications and service requirements for wireless delivery of financial services. Three separate versions of the RFI were prepared, one for each of the following sectors: Wireless Net-

works and Service Providers; Device Manufacturers; and Solution Providers. The RFIs were sent to 80 individuals representing 70 companies. The responses from the RFIs are due on February 1, 2001. This will allow time to assimilate the results, have follow-up interviews as necessary and be ready to present results to the BITS Board in April 2001.

John Tritak, Director of the Critical Infrastructure Assurance Office (CIAO), invited BITS representatives to a meeting at the Department of Commerce on January 11th. CIAO was interested in hearing about BITS' activities in general, including the Security Lab and Wireless Technologies initiatives. CIAO indicated that it wanted to further explore using the BITS model for both intra- and inter-industry collaboration in addressing security concerns. BITS' representatives attending were Catherine Allen, CEO; Teresa Lindsey, Chief of Staff; Peggy Lipps, Senior Director, along with Sam Phillips, Bank of America, who chairs the BITS Wireless Subgroup on Security. For more information, contact Teresa Lindsey, BITS, 202.289.4322, Teresa@fsround.org.

*Wireless Technologies Working Group
Co-Chairs: Kathy DeWit, Wells Fargo & Co.
William Randle, Huntington National Bank*

Business Method Patents

The Co-Chairs of the Working Group, Wayne Sams of First Union and Mark Kesslen of J.P. Morgan Chase, presented issues related to business method patents on December 6th to the members of the Financial Services Roundtable's (FSR) Government Affairs Council. That same day, BITS representatives presented a three-hour briefing on BITS' initiatives to about 30 examiners from the US Patent and Trademark Office (PTO). The Working Group continues discussions on the value of intellectual property audits, methodologies used and factors for business decisions.

The BITS Business Method Patents Working Group was created to assess the impact of the dramatic increase in business method patents on e-commerce, the payments system and the

(continued on page 4)



• **BITS' INITIATIVES, CONTINUED** •••••

financial services industry. Key objectives of the initiative are working with other industry groups and the PTO in a collaborative, interactive educational process and helping the PTO develop a comprehensive, reliable library of financial services “prior art.” In particular, the Working Group will make recommendations for financial services members to use as criteria for inventorying intellectual property. A briefing paper for CEOs and other senior executives on the issues related to business method patents is being prepared for presentation to the BITS and FSR Boards in April. For more information, contact Cheryl Charles, BITS, 202.289.4322, Cheryl@fsround.org.

*Business Method Patents Working Group
Co-Chairs: Mark Kessler, J.P. Morgan Chase
Wayne Sams, First Union*

• **Electronic Signatures and Documents (E-SIGN)**

• The E-Sign Review Group continues its role as a clearinghouse and discussion forum on the status of implementation of the electronic signatures and documents law by financial institutions, government entities and technology providers. The discussion forum is held online and through biweekly telephone calls. In addition, two subgroups have been formed to focus on Standards and Legal-Regulatory Issues.

• The E-Sign Review Group has been collaborating with the BITS B-to-B Authentication SWAT Team about ways to approach authentication issues and solutions being addressed by both groups. The E-Sign Standards Subgroup will develop a matrix of current applications and transactions affected by e-signatures. This matrix will differ from that being developed by the SWAT Team in that it will specifically address and evaluate risk levels of electronic applications and transactions rather than addressing a specific technology solution *per se*. The E-Sign Standards matrix and the Authentication SWAT Team matrix may ultimately be used together to provide member organizations

with an authentication evaluation tool. This topic will be addressed at the BITS Authentication Forum in Phoenix, Arizona on February 13th (see box on page 7). For more information, contact Peggy Lipps, BITS, 202.289.4322, Peggy@fsround.org.

*E-Signatures and Documents Review Group
Chair: Louis Rosenthal, ABN AMRO*

• **Service Providers/Outsourcers Business Practices**

A major deliverable for the Service Providers/Outsourcers Working Group is a guide for financial institutions on the selection and management of third-party relationships. The BITS Working Group was created to promote the safety and soundness of service provider relationships with financial institutions and to reduce risk and liability through better control of business practices related to security and privacy.

The first version of the *Proposed BITS Minimum Business Requirements for Information Technology in Outsourced Environments* is being developed, using the Aggregation Services Preliminary Guidelines as a relevant framework. The Working Group has been vetting the document since October, taking into account the requirements and approach presented in the FFIEC document, “Risk Management of Technology Outsourcing.” The Business Requirements document will be finalized at a February 27-28 meeting in Baltimore, then presented to the BITS Advisory Group for review. The final proposed requirements will be presented to the BITS Board in April. After April, the appropriate regulators and third-party providers will become involved in the vetting process to ensure compliance in implementation. For more information, contact Peggy Lipps, BITS, 202.289.4322, Peggy@fsround.org.

*Service Providers/Outsourcers
Business Practices Working Group
Co-Chairs: Sharon O'Bryan, ABN AMRO
Jim Dempster, Metavante
Viveca Ware, ICBA*

Security and Risk Assessment (SRA)

The SRA's Security Guidelines Subgroup is addressing ways to assist the financial services industry in a July 2001 implementation of Inter-agency Guidelines for Establishing Standards for Safekeeping Customer Information. The final guidelines were released in late January.

The BITS Financial Services Security Lab has completed and published for testing its third security criteria profile. Under the leadership of Jim Ramsay of First Union, the Access Control & Administration Systems profile was approved and posted to the BITS Security Lab website (www.globalintegrity.com/bitslab). Profile development work on three others—Monitoring & Intrusion Detection, Application Security, and Network Security—will continue through the first quarter of this year. Working groups for these profiles are assessing security requirements and creating working drafts as they gear up for in-person workshops over the next three-to-five weeks.

The newest version of the Master Security Criteria document (version 2.0) is also on the Lab's website. It debuts a new format and now contains explanatory rationale for the various criteria that all products for testing must meet. For more information, contact Laura Lundin or Peggy Lipps, BITS, 202.289.4322, Laura@fsround.org, Peggy@fsround.org.

*SRA Steering Committee
Co-Chairs: Peter Browne, First Union
Rhonda MacLean, Bank of America
Lab Governance Committee
Chair: Bill Sentenac, Wells Fargo & Co.*

Consumer Privacy and Information Use

The initial results of the BITS BAI Research Project are being compiled, with the final report and recommendations from this landmark study to be presented to the BITS Board in April. Understanding how consumers' financial services behaviors may be affected by issues of security and privacy of personal information is increasingly critical to current and emerging business models. The Project's issues team will meet on February 8th to continue identifying key business implications from the raw survey results. A

preliminary perspective will be presented at the March BITS Advisory Group meeting.

The study, conducted over a three-year period, will track changes in consumer behaviors as new technologies and services become increasingly available. For more information, contact Cheryl Charles, BITS, 202.289.4322, Cheryl@fsround.org.

*Research and Communications Steering Committee
Privacy Working Group
Interim Co-Chairs: Enid Miller, Mellon
Mary Jones, FleetBoston*

Fraud Reduction Program

The Fraud Reduction Steering Committee met on November 15th -16th in Orlando, Florida, conducting a discussion with Blake Pritchard, Federal Reserve Bank of Boston, on the Federal Reserve's current check fraud efforts. The Steering Committee also heard a presentation by John McCullough, Retailer Protection Associates (RPA), on its aggregated Financial Institution/Law Enforcement/Retailer Database used in combating fraud in the Midwest. RPA has had great success to date with this cooperative arrangement, and has agreed to present again at the BITS Retailer Forum scheduled for April 30th -May 1st. Wells Fargo will host the Forum to be held in San Antonio, Texas. Chuck Miller, Vice President of Loss Avoidance Services at the Food Marketing Institute (FMI), is helping BITS plan the program and publicize it to FMI's retail members. BITS will be presenting at the FMI Conference in Florida in February.

The various Working Groups of the Fraud Reduction Steering Committee are engaged as follows:

- The Debit Card Working Group has held discussions with VISA and MasterCard representatives on procedures related to use of debit cards for Internet gambling transactions. The group is working toward identifying and standardizing metrics as it relates to debit card losses. The group met on January 16th to review existing measurements banks use to determine fraud losses and recoveries and any inconsistencies in reporting those data to the card associations.

• **BITS' INITIATIVES, CONTINUED**

- The Successful Strategies and Statistics Working Groups will complete their research and will combine their reports into a Successful Strategies Database by February 2001.
- The Statistics Working Group is collecting 3rd quarter loss avoidance data from those BITS banks piloting the loss avoidance definitions. The group will review these data to verify that all data consistency problems have been resolved. They will then invite other banks to submit quarterly loss avoidance data for peer bank benchmarking.
- The Database Working Group will distribute to members *A Financial Institution's Guide to Transaction, People and Account Databases* in late January 2001. The Guide will be revised annually.
- The Internet Fraud Working Group is working on (1) a methodology for authenticating individuals upon initial Internet contact with a financial institution; (2) a method for verifying account numbers given on the Internet; and (3) an information system for fraudulent activities on the Internet. The group heard vendor presentations on products for authentication at its mid-January meeting.
For more information, contact Robin Slade, BITS, 505.466.6434, Robin@fsround.org.

*Fraud Reduction Steering Committee
Chair: Nancy Cloyd, Bank of America*

• **IFX Forum**

• In January 2001, the IFX Forum is launching the Brokerage Working Group to facilitate the needs of the brokerage industry. The student loan community is eyeing the IFX framework to satisfy its goal of designing one standard, based on an XML format, for use by student lenders, universities and the U.S. Department of Education. The Mortgage Bankers Association, part of America's Mortgage Industry Standards Maintenance Organization, is coordinating with the IFX Forum to standardize real estate finance transactions, with the goal of eliminating duplicative standards efforts in the loan

applications area. Internationally, financial institutions in the Far East are expressing strong interest in using the IFX Forum's architectural framework.

The IFX Forum has agreed to establish either (1) an Aggregation Working Group or (2) an informal group of members dedicated to establishing an IFX component to the Data Feeds section of the BITS Aggregation Services deliverable. For more information, contact Leslie Mitchell, BITS, 202.289.4322, Leslie@fsround.org.

*IFX Forum
Chair: Mark Tiggas, Wells Fargo Services Co.*

• **EA/ECP/Check Safekeeping**

Members of the various BITS Working Groups involved in electronic initiatives met by conference call on January 25th to discuss current issues. On the agenda were updates on the status of Electronic Check Presentment (ECP) and Electronic Alternatives (EA) activities and BITS' role in supporting the various industry groups responsible for their implementation. A cost-effective means of managing the transition from paper to electronic checks, was discussed, along with a possible national Check Safekeeping Campaign. Other participants included Michele Braun of the Federal Reserve Board, Hank Farrar of SVPCo, Jeff Neubert of NYCH, David Walker of ECCHO, Nancy Grant of NACHA and Larry Schmelzer of Star Systems, Inc. For more information, contact Robin Slade, BITS, 505.466.6434, Robin@fsround.org.

*EA/ECP Working Group
Chair: John Beran, Comerica
Check Safekeeping Working Group
Chair: Jerry Chambers, Bank of America*

BITS is partnering with BAI in a landmark **consumer privacy research** study, with initial results soon to be released.

All of these initiatives have strategic value to our industry, as do BITS' ongoing initiatives in fraud reduction and electronic of checks. Effective collaboration across industries is the primary reason that these BITS initiatives accomplish their goals--resulting in a model that is being emulated frequently in other industry sectors.

In the past year, BITS has shared information with numerous international groups, including the Australian Payments Clearing Association, the Payment System International Conference (PSIC), Canadian Payments Association, European Financial Management Association, APACs, EU bankers and the BASEL Committee. We will participate in OECD meetings in Paris in March. BITS is not merely "in the thick of it," but is on the leading edge of e-commerce developments for the financial services industry. We had a good year last year and expect another one in 2001.

Catherine A. Allen

ANNOUNCEMENTS

BITS Authentication Forum

"Securing the Future of E-Commerce for the Financial Services Industry" is the theme of the **BITS Authentication Forum to be held in Phoenix on February 13th**. The Forum, for members of the financial services industry, will explore business needs related to the electronic identification and authorization of customers in e-commerce. Emerging technologies and practices will be discussed, along with legislative and regulatory developments, the need for standards, and areas for collaborative action. A separate half-day session on biometrics (identification solutions such as fingerprints and optical scans) will be held on February 14th, featuring demonstrations of the latest technologies. Registration is \$150 per person; space is limited. The biometrics session is free to member institutions, but registration is required. For details, contact Peggy Lipps, Peggy@fsround.org or Laura Lundin, Laura@fsround.org.

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BITS PROFILE

Kent Miller is CIO and President of Centura Services at Centura Bank, based in Rocky Mount, North Carolina. He was recently named by *FutureBanker* magazine as one of the top five of the industry’s “Hottest CIOs” and was profiled in the October 2000 issue. He serves on the BITS Advisory Council.

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

BITS: Centura Bank has earned a national reputation for innovative use of client information and new technologies, along with a commitment to superior customer service in a broad range of financial services. Describe your role as CIO, outlining the key challenges of integrating marketing strategies with information management and technology enterprise-wide.

Miller: Centura made a conscious decision back in the mid-’90s to find ways to create customer relationship management (CRM) solutions and we have been aggressive in pursuing new technologies to achieve those goals. We were the first bank in North Carolina and one of the first in the country to implement online banking and bill payment, as well as a “true” PC sales platform in all branches.

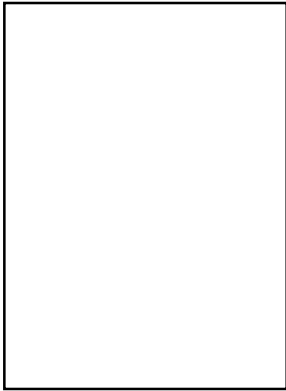
The CIO position is structured to ensure a strong working relationship with the bank’s marketing arm and the business lines. We evaluate and implement new information and technology solutions for our customers to position Centura at the leading edge (as opposed to the “bleeding edge”) of the financial services market. The key challenge in this is taking a very aggressive sales organization with a large appetite for creative improvement, and balancing that with the risk of new technologies and the real-time constraints on the organization’s capabilities. We have to recognize that we cannot be all things to all people, so we try to do the right things to support a customer-needs-based sales organization.

At Centura, our system for maintaining and accessing customer information has been a key factor in our CRM success. While many companies started out trying to create large CRM database solutions, often at great expense and with a high number of casualties, we tried a different approach. We adapted a marketing information system (Analytix) which allows us to extract information from our core systems and create customer-profitability profiles quickly and with great flexibility. That information is then loaded into our core systems and used for everyday processing. Instead of re-engineering the entire process and then integrating core systems into the new database, we took a shorter path and have achieved, I believe, a CRM success equal to anyone’s.

BITS: You were quoted in a recent article about Centura’s systems interface to advance full-service capacity: “The success of future initiatives is founded on the bank’s ability to

connect the dots.” How important is internal communication and vision building to achieving full-service goals?

Miller: Keeping the organization’s technology and operations team involved in the business success of the bank is a key ingredient in our success. Our ability to implement strategic initiatives is dependent on seeing how the dots can be connected within our organization. How do products and services mesh with staffing and resource allocation, with marketing strategies and our strategic business plan? For example, when we began to offer PC banking, we had to make things scalable, but also knew we would need Web capability as well. These types of current, planned and future “dots” become critical factors in our management-decision process. We had to decide which systems or dots to manage within Centura and which to outsource. Our choices were to maintain direct control of customer service and, as part of that, to offer account aggregation, one of the dots of a bigger picture. As one of the first banks to offer aggregation services, we purchased a sales/service delivery system to replace our sales infrastructure, allowing us to provide CRM at the point-of-sale in a more timely, robust manner. Yet, the true intent of this technology was to take it to the Internet and bridge-in account aggregation capabilities for self-service. This is another way of connecting the dots. There’s no “magic” in this; it’s common sense and working smart. And, at Centura, there are some dots yet to be connected, which keeps us challenged.



Kent Miller

BITS: As a member of the BITS Advisory Group, you participate in many industry initiatives and collaborative efforts. How has this helped you do your job at Centura?

Miller: BITS has been invaluable to Centura. Participating with a cross-section of banks provides perspective, insights and information that would otherwise be obtained through costly consultants. Because BITS deals in the most strategic issues, the benefits are even more significant. In particular, our BITS participation has been of tremendous value in the fraud reduction area. We have been able to reduce time, costs and resources in upgrading fraud systems.