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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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## AUGUST 2002

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 emerging technologies, 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
- 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

One of BITS' key goals is to help members better understand the impact of emerging technologies. How do we do this? Notably, by facilitating forums, meetings and conference calls. The continual exchange of ideas among our members allows us to develop industry best practices and standards that support—throughout the industry—the effective and secure use of increasingly complex technologies.

One area in which BITS members are collaborating to make better technology decisions is in their relationships with information technology (IT) service providers. The BITS IT Service Providers Working Group, which we're featuring in this issue of the *BITS Bulletin*, informs the industry on outsourcing issues and fosters discussion about security and privacy practices among members, regulators and the service providers themselves.

Another area we're looking at is payments. The payments environment is changing dramatically. Reports indicate that check volumes are declining at a faster rate than had been anticipated, indicating an acceleration in the shift to electronic payments. These changes make possible many efficiencies and opportunities. We're providing tools to help our members analyze the impacts of such shifts, emphasizing education—of both consumers and industry leaders.

Another area BITS is focusing on is patents. We're working with the U.S. Patent and Trademark Office (USPTO), fostering collaboration and dialogue on issues of concern to our members, such as establishing repositories of "prior art" and assuring the quality of the patent process.

BITS held an Identity Theft Forum in San Francisco in August. New technologies are enabling new forms of fraud, including identity theft. BITS has established an Identity Theft Working Group and is focusing on prevention as well as assistance to victims when such crimes occur.

We look forward to gathering once again to discuss these and other topics at September's Financial Services Roundtable Fall Conference. We hope members will join us at the BITS Technology Forum for insights from Richard Clarke, Special Advisor to the President for Cyber Space Security, Director James Rogan of the USPTO, and Allan Woods, Mellon Financial Corporation.

*Catherine A. Miller*

**CEO, BITS**



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

As we near The Financial Services Roundtable's Fall Conference and BITS Board meeting in September, we're assessing our progress in the past few months. Did we accomplish all we set out to do? Are we leveraging technology effectively and making the industry safer and sounder?

Let's review the results. In just a few months, the Crisis Management Working Group has established a communications plan for use during a crisis. A clear, documented process for communicating crucial information to CEOs is essential. That's one of our top priorities, and we now have a formal process in place. Communications processes and procedures are also being drafted to help companies make appropriate operational decisions in an emergency. Additionally, we are holding information-sharing sessions so that our members can learn from each other's business continuity practices.

In this issue of the *BITS Bulletin*, we'll look at one component of operational risk, the outsourcing of services to information technology (IT) service providers. Increasingly, our members are working with third-party IT service providers to supply key services. Continuing the work of the August 2001 *BITS Framework for Managing IT Service Provider Relationships*, the BITS IT Service Providers Working Group is identifying emerging issues and helping members establish best practices for these relationships. One important component the Working Group is pursuing—and regulators are focusing on—is evaluating service providers' security practices. Sharon O'Bryan, ABN AMRO; Jim Dempster, Metavante; and Viveca Ware, ICBA, as Working Group Co-Chairs, led the *Framework* development. We thank them for their superb work.

One growing area related to IT outsourcing is cross-border outsourcing. What are the risks specific to outsourcing functions to a company based outside of the U.S.? Will it be worth the cost savings for your institution? And how will regulators approach these relationships? The BITS IT Service Providers Working Group, now led by Viveca Ware, ICBA, and Lari Sue Taylor, FleetBoston, has assembled a Cross-border Outsourcing Project Team to look at these questions and help members make informed decisions. We are updating you on their progress in this issue.

We brought some of your questions about IT outsourcing to Hugh Kelly, Special Advisor for Global Banking at the OCC. See page 8 for the OCC's perspective on these issues.

We look forward to gathering in September to discuss these and other BITS initiatives. Thank you for your continued involvement in BITS.



James E. Rohr  
Chairman and CEO  
The PNC Financial Services Group  
Chairman, BITS Board of Directors

## FOCUS: IT OUTSOURCING

The boom in outsourcing information technology (IT) services brings both benefits and risks to the financial services industry. On one hand, financial institutions can provide a broader spectrum of services to customers more efficiently than ever before. On the other, service provider relationships are becoming increasingly complex, and regulators are requiring financial institutions to be responsible and ultimately accountable for vendor performance.

In 2001 the BITS IT Service Providers Working Group introduced the *BITS Framework for Managing Technology Risk for IT Service Provider Relationships*, a reference to stimulate firms to ask the right questions and to complement institutions' risk management policies. Today the Working Group is focusing on additional ways to select, manage and reduce the risks associated with IT service provider relationships. To accomplish this, the Working Group has established project teams in several key areas.

### Managing Service Providers

In order to achieve their strategic goals, institutions need to establish a process for vendor selection and management. Additionally, many BITS member organizations are preparing for or undergoing regulatory examination, which includes a review of their due diligence and oversight programs for service providers. Each organization is required by the OCC to have a documented process in place and to supply proper information on their service providers. (More on this on page 8.)

The BITS Vendor Management Project Team was formed to identify and share industry best practices for management of IT service provider relationships and the risks inherent in those relationships. The Project Team developed a questionnaire to survey BITS members on use of IT service providers. Once responses are received and analyzed, the Project Team will update Section 8 of the *Framework*, "Ongoing Relationship Management."

### Looking Beyond U.S. Borders

"Cross-border outsourcing" refers to hiring overseas service providers to supply IT services and application development and maintenance, as well as business process outsourcing. As with domestic outsourcing, critical issues in this area include due diligence, vendor management, and security and privacy concerns. However, when geopolitical risks and security, disaster recovery and privacy requirements are added to the risk management process, financial institutions must carefully develop both total cost of ownership and risk mitigation models. In May 2002 the OCC published Bulletin 2002-16 on conducting due diligence and assessing risk before hiring an overseas service provider.

The BITS Cross-Border Outsourcing Project Team is identifying industry requirements for establishing and managing cross-border relationships. In June, the Project Team held a conference call to discuss best practices and issues that arise with the use or consideration of overseas service providers. Member and non-member company presenters shared their perspectives and experiences.

**On November 14 and 15 in Washington, D.C., in conjunction with American Banker, BITS will hold a forum on managing service providers, "Financial Services Outsourcing: Managing Risk for Service Provider Relationships."** Participants from the financial services industry, financial regulators and service providers will share their perspectives on key outsourcing issues facing the financial services industry. The event will feature panel presentations and discussions on due diligence and risk mitigation strategies, vendor management, emerging technology issues, security audits and assessments, and cross-border outsourcing. For more information about the forum, contact Faith Boettger, [faith@fsround.org](mailto:faith@fsround.org)

### Assessing Security

When conducting due diligence and managing service provider relationships, financial institutions must be sure that their service providers have security, privacy and business continuity controls in place. Depending on the risk involved in the outsourced services, this assurance can take many forms. While the SAS 70 audit report has historically been submitted by the service provider, the intent of the report, the definition of scope, and upcoming changes in the document itself have led financial institutions to seek alternatives both from internal and external auditors and consultants. Whatever the method, institutions must review service provider practices, processes and controls based upon their own risk.

The BITS Security Assessments Project Team plans to develop an assessment tool that allows service providers to document and validate their practices, processes and controls as they relate to industry expectations. The tool will build on the information

*Continued on page 7*

## BITS BULLETIN BOARD

BITS has been busy this summer holding meetings with representatives from other industries, government and regulatory agencies. Here are some highlights.

**On August 7 BITS held an Identity Theft Forum in San Francisco.** Presentations focused on framing the issue of identity theft, identifying solutions, and mitigation and legislation. Presenters included: Richard Stana, GAO; Andy Purdy, President's Critical Infrastructure Protection Board; and representatives from the U.S. Secret Service, FBI, U.S. Postal Inspector's Office and credit bureaus. Other presenters included Shirley Insoe, Wachovia; Bob Jones, FleetBoston; Louis Rosenthal, ABN AMRO; Dan Schutzer, Citigroup; Joe Triano, Citigroup; and Leigh Williams, Fidelity.

Several next steps were established at the meeting, including:

- Improving victim assistance efforts by coordinating between the FTC, law enforcement, credit bureaus and financial institutions
- Publishing a white paper on identity theft
- Improving information-sharing efforts by facilitating anonymous sharing of information
- Improving identity-theft-related communication internally, between organizations, and with other sectors
- Using collected information to identify trends
- Supporting stronger authentication
- Evaluating the concept of an Identity Theft Victims' Assistance Center

For more information, contact Robin Slade, [robin@fsround.org](mailto:robin@fsround.org)



**On July 26 the BITS Cross-Industry Business Continuity Planning Group met at the Federal Reserve Bank of New York.** The group discussed telecommunications issues, industry communications structure, vendor crisis preparedness, industry crisis communications structure and vendor testing for business continuity. BITS plans to draft a white paper that describes issues and recommendations for telecom companies on behalf of financial services companies. The paper will build a case for change in the way telecom companies construct back-up and contingency plans, and provide incentives for companies to make those changes. A survey for evaluating vendor security practices created by the Securities Industry Association is being distributed to BITS for member review and comment. The group discussed the need for different industry groups to maintain separate crisis communications structures, but agreed that it would be worthwhile to investigate how essential communications could be conveyed across industries. For more information, contact Jennifer Dickerson, [jennnd@fsround.org](mailto:jennnd@fsround.org)

Visit BITS on the Web  
[www.bitsinfo.org](http://www.bitsinfo.org)  
for BITS publications,  
presentations and information

**BITS CEO Catherine Allen and Larry Bickner, The Nasdaq Stock Market, co-chaired a workshop on Financial Services Security and Competitiveness** on July 23. The workshop was part of a sector series that the Council on Competitiveness is conducting in preparation for its National Symposium on Competitiveness and Security, October 8 and 9, in Pittsburgh, Pa. The symposium will bring public and private sector leaders together to discuss the need for new strategies, technologies and systems that can transform the requirement for higher security into opportunities for higher productivity and growth.

**Aggregation Services**

The Working Group has assembled a Scoring Team to review and evaluate responses to BITS' RFI on data feed and authentication solutions for aggregation. Early results indicate a significant gap between industry needs and available technology, particularly with respect to authentication. Given the lack of implemented solutions, industry guidelines are well-timed to play a meaningful role in developing appropriate technologies. This fall BITS will publish expanded voluntary guidelines for aggregation services. Contact Gary Roboff, [garyrob1@aol.com](mailto:garyrob1@aol.com), or Leslie Mitchell, [leslie@fsround.org](mailto:leslie@fsround.org).

*Aggregation Services Working Group  
Chair: Gayle Wellborn, Wachovia*

**Authentication**

The Working Group is developing a framework for members to use in determining their desired business role in the authentication space. The group is monitoring rapidly changing business models in the public and private sectors and is working to influence the development of acceptable authentication solutions and standards. Participants are taking part in initiatives with Microsoft, Liberty Alliance, AICPA, E-Government and various standards bodies. Contact Jennifer Dickerson, [jennd@fsround.org](mailto:jennd@fsround.org), Gary Roboff, [garyrob1@aol.com](mailto:garyrob1@aol.com), or Leslie Mitchell, [leslie@fsround.org](mailto:leslie@fsround.org).

*Authentication Working Group  
Co-Chairs: Louis Rosenthal, ABN AMRO  
Dan Schutzer, Citigroup*

**BITS Product Certification Program**

The translation of the Master Security Criteria and four selected profiles to the Common Criteria Schema is nearly complete. The Common Criteria – Master Security Requirements, Network Security, Application Security, Monitoring and IDS and Application Packages documents are complete. These packages will be available to technology providers by the beginning of third quarter 2002; BITS will invite a technology provider to review and “walk through” one. The Lab Governance Committee will meet in Washington, D.C. on Sept. 19 to continue discussion of revitalizing marketing efforts for the Program and making it part of government testing policy. Visit [www.bitsinfo.org](http://www.bitsinfo.org) or contact Jennifer Dickerson, [jennd@fsround.org](mailto:jennd@fsround.org) or Ben Stafford, [ben@fsround.org](mailto:ben@fsround.org).

*Lab Governance Committee  
Co-Chairs: Eric Guerrino, The Bank of New York and  
Bill Sentenac, Wells Fargo & Company*

**Consumer Privacy**

The Working Group meets monthly to share best practices and stay informed about emerging issues. Discussions are underway concerning a possible third year of the BITS Consumer Research Project. Members recently reviewed two work products of the International Security, Trust and Privacy Alliance (ISTPA), a non-profit, technology-neutral consortium that is working to further the privacy and security of privacy-enabling technologies. Visit [www.istpa.org](http://www.istpa.org) for additional information. Contact Cheryl Charles, [cheryl@fsround.org](mailto:cheryl@fsround.org).

*Privacy Working Group  
Co-Chairs: Mary Jones, FleetBoston  
Enid Miller, Mellon; Leigh Williams, Fidelity*

**Crisis Management**

BITS held a Forum, “Telecommunications in Times of Crisis,” in New York on July 11, moderated by Leigh Williams, Fidelity. The forum was held to increase awareness and improve financial institutions' preparedness for an event that affects telecommunications security and reliability. Attendees heard presentations on the FCC Perspective on Network Reliability and Interoperability, Threats to the Financial Services Industry, and the Telecommunications Service Priority System, among others. Speakers included Paul Kurtz, National Security Council; Steve Malphrus, Federal Reserve Board; Brian Tishuk, Treasury; Brenton Greene, National Communications System; Jeffrey Goldthorp, FCC; Art Deacon, AT&T; Bill Smith, BellSouth; Paul Leavitt, Verizon; and others. Telecommunications companies' representatives attending cited economic constraints as a reason for the lack of diversity and redundancy in their systems. Contact Jennifer Dickerson, [jennd@fsround.org](mailto:jennd@fsround.org).

The Crisis Management – Scenario Building and Event Management group has created the *BITS Crisis Management Process: Members' Manual of Procedures*, containing crucial information to help CEOs and their crisis management teams make appropriate operational decisions, including industry-level processes for activation, notification, response, recovery and messaging. The draft procedures will be posted at the BITS website, [www.bitsinfo.org](http://www.bitsinfo.org) under Members Only. Testing of the procedures will begin in late summer. Contact Teresa Lindsey, [teresa@fsround.org](mailto:teresa@fsround.org) or Heather Wyson, [heather@fsround.org](mailto:heather@fsround.org).

*Crisis Management Working Group  
Chair: Allan Woods, Mellon Financial Corp.*

**Good Luck, Peggy!**

This summer BITS bid a fond farewell to Peggy Lipps. A friend to all of us and a force in the financial services industry, Peggy coordinated the BITS Security and Risk Assessment initiative and played a central role in BITS' Crisis Management efforts. We at BITS thank her for her hard work and accomplishment and wish her the best in her new endeavors. Peggy is moving on to Bank of America, where she will support Rhonda MacLean, Chief Security Officer, in Ms. MacLean's role as Sector Coordinator for the Financial Services Coordinating Council for Critical Infrastructure Protection and Homeland Security.

**Fraud Reduction**

The Steering Committee held an in-person meeting Aug. 5 and 6 in San Francisco, including a half-day roundtable discussion with representatives from the FBI, U.S. Secret Service, and U.S. Postal Inspection Service. The Identity Theft Working Group, led by Joe Triano, Citigroup, is developing a white paper. The Statistics and Successful Strategies Working Groups' Truncation Task Force has completed a white paper, "The Evolution of Fraud Prevention Technologies in a Truncation Environment." The Debit Card Working Group is continuing efforts to create a mechanism for statistical tracking of debit card losses. The Successful Strategies Working Group will hear vendor presentations on Aug. 20 from Computer Scientist Corporation and Biometric Security Card, Inc. The Legal Working Group is looking for attorneys from BITS member institutions to join. Contact Robin Slade, [robin@fsround.org](mailto:robin@fsround.org)

*Fraud Reduction Steering Committee  
Co-Chairs: Shirley Inscoc, Wachovia  
Bob Jones, FleetBoston*

**Insurance in E-Commerce**

Jeffrey Grange, Chubb, BITS CEO Catherine Allen and Susanna Space, BITS, met with Richard Clarke, Special Advisor to the President for Cyberspace Security and executives from the Treasury, Federal Reserve and CIAO on July 25 to discuss the *BITS Technology Risk Transfer Gap Analysis Tool*. The *Gap Analysis* can be used by companies to identify gaps in

traditional insurance policies and assist in choosing insurance products that address increasingly complex technology risks. Next steps include continued education of the industry and discussion with government leaders, as well as exploring ways insurers can be encouraged to provide coverage for cyber risks. The *Gap Analysis* has been distributed to BITS members and is posted in the public area of the BITS website, [www.bitsinfo.com](http://www.bitsinfo.com). Contact Susanna Space, [susanna@fsround.org](mailto:susanna@fsround.org)  
*Insurance in E-Commerce Working Group  
Chair: Jeffrey S. Grange, Chubb*

**Patent Issues**

The Working Group meets on an as-needed basis. BITS continues its outreach and cooperation with the U.S. Patent and Trademark Office (USPTO). John Burke, Foley Hoag, and counsel to BITS, and Cheryl Charles, BITS Senior Director, recently presented a financial services industry perspective on patent issues as part of the USPTO Business Method Patents Partnership Meeting. Contact Cheryl Charles, [cheryl@fsround.org](mailto:cheryl@fsround.org)  
*Patent Issues Working Group  
Co-Chairs: Mark Kessler, J.P. Morgan Chase & Co.  
David Schreiber, Citigroup*

**Payment Strategies**

The Payments Framework Working Group held a subcommittee meeting in July at Wells Fargo's offices. The group discussed payments conversion, check migration and infrastructure management, and agreed on recommendations for best practices. The Electronic Check Presentment (ECP) Working Group met in July to discuss plans for helping regional banks analyze ECP benefits in the context of localized check presentment patterns. The Electronification Alternatives Payment Migration Model Subcommittee continues to update and refine the model. The Check Safekeeping Working Group has completed a draft white paper. The Check Truncation Act (CTA) Working Group reports that although legislation is not expected to pass this term, there will be hearings on proposed language in Sept. This group is working to ensure that the industry's perspective is understood in Congress. Contact Gary Roboff, [garyroboff1@aol.com](mailto:garyroboff1@aol.com), or Leslie Mitchell, [leslie@fsround.org](mailto:leslie@fsround.org)

*Payment Strategies Steering Committee  
Chair: John Beran, Comerica*

*Continued on p. 7*

## Update on BITS Initiatives, *Continued from p. 6*

### Security and Risk Assessment

Jeffrey Stempora, State Farm, has been named Chair of the Steering Committee to replace Rhonda MacLean, who is now serving as Sector Coordinator for the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security. BITS sits on the Council. The Steering Committee will meet via conference call in mid-August; the next in-person meeting will be held November 4 and 5 in Washington, D.C. A review group is being formed for the operational risk management initiative led by Jeffrey Stempora, State Farm, and Paul Smocer, Mellon. The group will work on defining operational risk and its scope, and share thoughts on what areas of operational risk BITS should concentrate. For information on the operational risk initiative contact Cheryl Charles, [cheryl@fsround.org](mailto:cheryl@fsround.org) or Ben Stafford, [ben@fsround.org](mailto:ben@fsround.org)

*Security and Risk Assessment Steering Committee  
Chair: Jeffrey Stempora, State Farm*

### Standards

The Steering Committee has identified several areas in which standardized nomenclature could improve product efficiencies, operating risk, etc. Among the current areas are those of straight-through processing for payments, straight-through processing for brokerage, and statement integration. Both SWIFT and The New York Clearing House have presented their thoughts about straight-through processing standards to the Committee. The Committee continues to work with several standards organizations to rationalize parallel nomenclature and focus. Contact Gary Roboff, [garyrobof1@aol.com](mailto:garyrobof1@aol.com), or Leslie Mitchell, [leslie@fsround.org](mailto:leslie@fsround.org)

*Standards Steering Committee  
Chair: Dan Schutzer, Citigroup*

### Focus: IT Outsourcing, *Continued from p. 3*

contained in the *BITS Framework for Managing Technology Risk for IT Service Provider Relationships* and using the ISO 17799 standard.

### BITS IT Service Providers Working Group

BITS thanks outgoing Co-Chairs Sharon O'Bryan, ABN AMRO, and Jim Dempster, Metavante, for their commitment to the Working Group and hard work in developing and following up on the *Framework*. Lari Sue Taylor, FleetBoston, now steps into the role as Co-Chair with Viveca Ware, ICBA. Ms. Taylor has more than sixteen years of experience in the telecommunications and management information systems arenas, and has been responsible for the implementation of a corporate wide security program that includes policy, compliance, monitoring, architecture, and awareness.

### MEMBERSHIP UPDATE

During the past two months, BITS has met with executives from several new member companies: AXA, Merrill Lynch, The St. Paul Companies, and SouthTrust. BITS has also re-connected with several existing members. Membership review meetings allow the member organization to evaluate their BITS participation and get better value from the time and resources allocated to BITS activities. If you have any questions on membership or would like to set up a membership review meeting, please contact Ann Patterson at [ann@fsround.org](mailto:ann@fsround.org)

### BITS STAFF

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**Hugh Kelly**, Special Advisor for Global Banking at the Office of the Comptroller of the Currency (OCC), has twenty-five years of experience with the OCC, primarily in large bank and international supervision. As a member of the Global Banking and Financial Analysis management team, Mr. Kelly is responsible for coordinating the OCC's efforts in global electronic banking and technology risk supervision.

*This is one in a continuing series of interviews with members of the BITS and The Financial Services Roundtable Boards of Directors, BITS Advisory Group, BITS Council and other key leaders in electronic commerce and financial services.*

**BITS:** What trends are you seeing in financial institutions' use of IT service providers?

**HK:** Outsourcing isn't new. But there has been a recent proliferation of technology and consequent reliance on third parties to supply needed skills.

As far as regulatory trends, the OCC is putting increased focus on risk management of outsourcing. OCC Bulletin 2001-47, on risk management of third-party service providers, was issued in November of 2001, which complements the FFIEC's guidance on outsourced technology services issued a year earlier. We've published other guidances in this area, including OCC Bulletin 2002-16 issued in May on using third-party service providers based in foreign countries.

**BITS:** What is the OCC's position on outsourcing to companies outside of the U.S.?

**HK:** The OCC does not think cross-border outsourcing is inappropriate, as long as certain due diligence conditions are met. In addition to the risks posed by any service provider, the risks of contracting with an overseas provider can include: country risk, which includes social, economic and political instability; adequate monitoring and oversight of the outsourced operation; and risks related to security and confidentiality of bank and customer information. Another risk related to cross-border outsourcing is jurisdictional law. Which country's law applies if a legal issue arises? We recommend financial institutions insert a "choice of law" covenant in their contracts.

The May 2002 bulletin was developed to guide banks and examiners in conducting due diligence and assessing risk before deciding to contract with an overseas service provider.

**BITS:** How will service providers be taken into account under Basel II capital allocation calculations?

**HK:** It's still too early to make a specific statement. The Basel II capital framework doesn't specifically focus on outsourced operations, but the Basel Committee's new paper on sound risk management practices for operational risk (BIS No. 91) notes that outsourcing can reduce the institution's risk profile by transferring activities to others with greater expertise and scale to manage the risks. However, a bank's use of third parties does not diminish the responsibility of the board and management to ensure that the third-party activity is conducted in a safe and sound

manner. Also, banks still need to manage any residual operational risks associated with outsourcing arrangements, including disruption of services, or reputational risks.

**BITS:** As risk assessment of service providers becomes more important, what assessment methods will be satisfactory?

**HK:** Institutions need to understand that they don't get a free pass by outsourcing. That said, there is no one-size-fits-all approach to assessing service provider risk. The November 2001 guidance allows financial institutions flexibility—the degree of oversight and reporting will depend on the process that's outsourced, just as the overall risk management process a financial institution uses will depend on its particular risk profile. It's incumbent upon management to determine what kind of risk management process is needed and to ensure proper checks and balances are in place. We need to see not only that a program is in place but that it's working. Boards and management also need to ensure they have the appropriate skills in their company to be able to effectively evaluate the third party's risk management process and the quality of service provided.

BITS, through its IT Service Providers Working Group, has been very successful in engendering dialogue on vendor management and helping develop and share best practices—all of which helps supervisors.

**BITS:** What's on the horizon in this area?

**HK:** In general, we're continuing to look at new service provider issues and talk with our domestic and international colleagues and the industry about what might be needed in this area. We encourage BITS to keep leading the industry in identifying best practices for vendor management. More specifically, the *FFIEC Information Technology Handbook* is being revised to include an updated section on vendor management.

On an international level, the Basel Committee on Banking Supervision's Electronic Banking Group, chaired by Comptroller Hawke, is preparing to look at outsourcing risk management, including cross-border outsourcing.

The bottom line is that we see there's a role for outsourcing as a cost-effective way to bring needed expertise and services into companies. But banks need to be sure proper due diligence and ongoing risk oversight is practiced. Outsourcing doesn't mean institutions can forget about risk.