
BITS BULLETIN

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

OCTOBER 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.

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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

BITS
FINANCIAL SERVICES
R O U N D T A B L E

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: **LETTER FROM THE CEO**
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• One year after September 11, the safety and soundness of the financial services industry continues to support the economy. Looking back on the past year, we have taken major strides toward improving security both in our individual member institutions and throughout the financial services industry. We are addressing interdependencies with other critical infrastructure industries and have established relationships with key government agencies and regulators, all in an effort to safeguard our nation's economy.

• Safety and soundness was a recurring theme at Fall Conference. At the BITS Technology Forum, Richard Clarke, Special Advisor to the President on Cyberspace Security, spoke on the very real threat of a cyberattack on the private sector, particularly one aimed at disrupting the national economy. Mr. Clarke also discussed the dangers of a combined physical attack and cyberattack and what industry leaders can do to continue to strengthen our infrastructure. Though we are proud of what our industry has done to become more prepared than any other critical infrastructure sector, we know that there is much work yet to do.

• In September Mr. Clarke and the President's Critical Infrastructure Protection Board (PCIPB) released the first draft of the "National Strategy to Secure Cyberspace" for public comment. BITS supports Mr. Clarke and his team and is helping to spread the word of the Draft Strategy among our members, including how they can participate in its development. The document will evolve as it is reviewed by industry and government, all with the goal of ensuring that we are prepared for cyberattacks on U.S. systems, and that our response to these attacks is quick and effective.

• Your support—through BITS membership, participation in our forums and conferences, or just your interest in our work—is more important now than ever before. Thank you. I wish you a safe, happy and prosperous fall.

Catherine A. Allen

CEO, BITS

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BITS is keeping its focus on Crisis Management and Operational Risk, two issues of utmost importance to our members. In April we introduced our efforts in Operational Risk here in the *BITS Bulletin*. In this issue we'll brief you on BITS' progress in this area.

Several BITS initiatives—including Crisis Management, IT Service Providers, and the BITS Product Certification Program—have been addressing issues related to Operational Risk since their inception. BITS recently established the BITS Operational Risk Working Group. The Working Group, chaired by Paul Smocer, Mellon, and co-chaired by Jeffrey Stempora, State Farm, will initially focus on defining Operational Risk and its scope.

The BITS Crisis Management Working Group continues its progress in a related and critically important area—the interdependencies between telecommunications and financial services. At the BITS Technology Forum at Fall Conference in September, Allan Woods presented BITS and Roundtable member CEOs with a call to action to raise awareness of the importance of addressing the sector's reliance on telecommunications. This issue is particularly pressing, as that industry faces significant financial challenges. BITS has created a Working Group under its Crisis Management Initiative to address telecommunications issues and is developing a white paper on vulnerabilities and proposed solutions that will be used to communicate and address these issues.

On October 8 and 9, BITS participated in The National Symposium on Competitiveness and Security, co-sponsored by the Council on Competitiveness and Carnegie Mellon University. I was pleased to speak as part of a panel on "Integrating Security and Competitiveness: Roles for Public and Private Sectors," reinforcing the call to action endorsed by the CEOs in September to address this industry's telecommunications issues. BITS is working with the Council to help its members leverage our expertise in fostering cooperation among businesses and between industry and the government. Among the key topics we are addressing are how new security standards can be established to manage risk and maintain economic competitiveness, who will set them, and how they can be enforced.

More than ever before, BITS' initiatives are focusing on the issues central to the financial services industry. As always, I urge our members to get involved.



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

FOCUS: OPERATIONAL RISK

Financial institutions today need to understand and comply with Basel II requirements for operational risk. Perhaps more pressing, though, is that large corporate customers and other stakeholders, including Wall Street and insurance companies, are clearly concerned about how operational risk is being managed within large financial institutions. Financial institutions must improve their understanding of operational risk in order to manage that risk most effectively.

The Basel Committee has adopted a standard industry definition of operational risk: “the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.” Operational risk is often defined as including the functions of information security, business continuity and disaster recovery, information technology, physical security, third-party service provider relationships, fraud reduction, legal and regulatory risk, compliance and privacy.

Exploring Operational Risk

BITS and its members have been intensively looking at operational risk over the past several months. The BITS Operational Risk Forum in June provided members with an overview of operational risk issues. The fiduciary responsibility of boards, insurance issues, and regulatory perspectives were discussed. Attendees also looked at a number of financial institution case studies. Speakers included executives from the Federal Reserve, OCC, Basel Committee on E-Banking, Treasury and member companies, among others.

Following the Forum, BITS surveyed member institutions to gauge their interest in the topic and to assess the state of the industry on “operational risk readiness.” Of 40 responding institutions, 31 reported having or planning to appoint a chief operational risk officer, and 22 said they had established a board-level operational risk committee. According to the survey, members generally agree that they need guidance on the specific components of operational risk—particularly IT-related risks and comprehensive risk process issues. In looking at the individual components of operational risk, there was broad consensus by responding institutions that information security risks are a key component of operational risk.

Exploring the operational risk landscape, BITS decided to create the BITS Operational Risk Working Group. Representatives from more than 25 member institutions attended the Working Group’s first meeting, held in September.

The Working Group is led by Co-Chairs Paul Smocer, Mellon Financial Services, and Jeffrey Stempora, State Farm Insurance.

The BITS Operational Risk Working Group

Initially, the Working Group will operate on two distinct tracks. The first addresses specific components of operational risk, and the second examines more general issues. The first group, Track I, is creating an information security risk assessment model. It will develop a common body of key risk factors (or “threat statements”) related to information security that influence operational risk and a standard definition for each risk factor. The resulting model will apply to other IT and non-technology components of operational risk. After the model is complete, BITS will explore expanding the model to other areas.

Track II will address peer-to-peer information exchanges on general operational risk challenges such as developing management buy-in, creating internal infrastructure, defining stages of development, sharing successful strategies and disseminating self-analysis tools. BITS will engage those with enterprise-wide responsibility for operational risk in this track. The group will facilitate industry sharing and compile a compendium of best practices in operational risk. These efforts will also help shape the operational risk definition used in the Basel II Accord. Meetings will serve as a forum for dialogue with U.S. and foreign regulators on implementation of the operational risk components of Basel II.

Telecommunications Risks

Despite increased attention given to weaknesses in the critical infrastructure, areas of risk continue to exist. One important operational risk issue BITS has been addressing is our industry’s dependency on the telecommunications sector.

Telecommunications companies today are suffering a financial crisis, with \$2 trillion in losses. Despite the criticality of the services they deliver, there is inadequate redundancy, diversity or security in telecommunications systems. As a result, financial institutions face the very real possibility that a crisis could result in unreliable service or a lack of service altogether.

FOCUS: OPERATIONAL RISK AND SECURITY

- BITS is addressing this situation through the
- BITS Crisis Management Coordination
- Working Group, which is:
 - Developing a white paper on critical issues and potential solutions
 - Scheduling CEO-to-CEO discussions with key telecommunications vendors
 - Scheduling CEO-to-regulator discussions with key regulators
 - Addressing issues through business practices and public policies
 - Making issues known to the industry through business requirements

• As part of this effort, BITS CEO Catherine Allen, with senior BITS staff and member company executives, met in September with members of the Network Reliability Infrastructure Council (NRIC) at the Federal Communications Commission. (Ms. Allen sits on the Council with CEOs of the major telecommunications companies and associations, representing the interests of the financial services sector.) The NRIC Working Groups reported on their deliverables in network reliability, business continuity, and homeland security. Ms. Allen updated the group on BITS' efforts in the telecommunications and business continuity areas. NRIC Chairman Richard Notebaert, Chairman and CEO of Qwest, asked that BITS share its white paper with NRIC and supported the concept of CEO-to-CEO meetings across the telecommunications and financial services sectors.

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Because of its importance to the U.S. economy, the banking and finance sector is a target for attack. Financial institutions should focus on the health of the Internet itself. Efforts to improve cybersecurity should focus on identifying those weaknesses where the vulnerability to attack is the highest.

- Richard Clarke
 Special Advisor to
 the President for
 Cyberspace Security

The National Strategy to Secure Cyberspace

On September 18, the President's Critical Infrastructure Protection Board (PCIPB) led by Richard Clarke, Special Advisor to the President for Cyberspace Security, released a draft of the "National Strategy to Secure Cyberspace" for public comment. The document was created through the collaboration of private sector companies, academia, and local, state and federal government to help better prepare the U.S. for cyberattacks launched by hostile nations or groups. The Draft Strategy is intended to help make cyberattacks infrequent, manageable and cause the least amount of damage possible.

Mr. Clarke and the PCIPB are encouraging both businesses and individual citizens to participate in developing the Draft Strategy, which is available for download at the White House Web site, www.whitehouse.gov/pcipb/. You can participate by emailing your comments to feedback@cybersecurity.gov. As part of the Draft Strategy, each of the critical infrastructure sectors created their own plans, which can be downloaded at the Partnership for Critical Infrastructure Security Web site, www.pcis.org.

To raise awareness of the Draft Strategy and foster dialogue among businesses and private- and public-sector leaders, the PCIPB is holding "town hall" meetings hosted by Mr. Clarke or PCIPB Vice Chair Howard Schmidt, along with a panel of experts representing industry and federal, state and local agencies. Business and professional association leaders, academics, local legislators and government agency representatives, local government CIOs, and representatives from critical infrastructure industries are being invited to participate. BITS is helping the PCIPB identify senior executives from the financial services industry who may be interested in participating in this important civic process.

The Draft Strategy supplements two previous documents released by the PCIPB, the Homeland Security Strategy and the National

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Aggregation Services

Based on responses to its RFI, the Working Group is developing Voluntary Guidelines for Data Feed and Authentication. A draft, circulated to the Working Group in August, is being revised based on member feedback. Senior management of Working Group member firms will review the revised draft in October. Circulation of the final draft is expected in November. A Technology Day to showcase aggregation technologies will be held during the first half of 2003. RFI respondents will participate in the event. Contact Leslie Mitchell, leslie@fsround.org or Gary Roboff, garyrob1@aol.com.

*Aggregation Services Working Group
Chair: Gayle Wellborn, Bank of America*

Authentication

The Working Group has planned three deliverables to help define business cases for authentication technology, understand the implications of authentication tools, and describe the legal and regulatory environment. One team will survey members on identity-management programs and identify best practices. Preparation began with a presentation by PricewaterhouseCoopers and Burton Group on related issues. Best practices culled from the survey will help gauge the industry's position and inform the work of a process flows and case studies team. The legal and regulatory team will then map a framework of relevant statutes, consider gaps in current law, and evaluate the need to clarify issues. Contact Leslie Mitchell, leslie@fsround.org or Gary Roboff, garyrob1@aol.com.

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

BITS Product Certification Program

BITS will host a re-launch event for the BITS Product Certification Program for technology vendors on Nov. 5. The event will include BITS member companies' top security executives and presentations from key financial services companies and government officials, as well as information on new testing options through the Common Criteria. For more information visit www.bitsinfo.org Contact Jennifer Miller

Dickerson, jennifer@fsround.org, Laura Lundin, laura@fsround.org or Ben Stafford, ben@fsround.org.
*Lab Governance Committee
Co-Chairs: Eric Guerrino, The Bank of New York and
Bill Sentenac, Wells Fargo & Company*

Consumer Privacy

A Task Force within the BITS Privacy Working Group developed and submitted a Position Paper for participation in the World Wide Web Consortium's November Workshop on The Future of P3P (Platform for Privacy Preferences Specification 1.0). The Position Paper summarizes issues of concern and recommendations for improvement to this continually evolving specification. The Working Group meets monthly to share best practices and stay informed about emerging issues. Contact Cheryl Charles, cheryl@fsround.org

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

Crisis Management Coordination

Allan Woods, Mellon Financial Corporation, presented during the BITS Technology Forum at Fall Conference. Mr. Woods focused on 9/11 one year later, and highlighted how the industry has pulled together to prepare for future attacks. He noted that there are still areas of risk and that members' assistance is needed in order to mitigate risks. The key risk is interdependence with telecommunications, an industry in crisis (see below).

John DiNuzzo, FleetBoston, chairs the new Telecommunications Working Group. The Working Group is writing a white paper identifying critical issues and potential solutions to be used for discussion and distribution among members, regulators, and CEOs in the financial services and telecommunication sectors. On Sept. 27, the Working Group met with representatives from various government agencies to share information on initiatives and identify opportunities to work together. Contact Jennifer Miller Dickerson, jennifer@fsround.org or Heather Wyson, heather@fsround.org.

BITS has submitted a comment letter to the "Draft White Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System" released in August by The Federal Reserve Board, Office of the Comptroller of the Currency, Securities and Exchange Commission and the New York State Banking Department. The white paper raises awareness of 9/11-related business continuity issues and establishes new expectations for "core clearing and settlement organizations" and "financial institutions that play significant roles in critical markets." BITS coordinated its comments with the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security.

Welcome, John Carlson!

John Carlson, former Senior Advisor for Bank Technology for the Office of the Comptroller of the Currency, has joined BITS as Senior Director. John will lead the Crisis Management Coordination Initiative with Teresa C. Lindsey and will also help lead the BITS Security and Risk Assessment Steering Committee as well as the new BITS Operational Risk Working Group. (See page 3.)

For more information on BITS' Crisis Management Coordination Initiative, contact: Teresa C. Lindsey, teresa@fsround.org; John Carlson, john@fsround.org; Jennifer Miller Dickerson, jennifer@fsround.org or Heather Wyson, heather@fsround.org

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

Fraud Reduction

The Steering Committee will hold an in-person meeting Oct. 27 and 28. During the in-person meeting, John Browning, Check Payment Systems Association, will discuss cooperative efforts to improve the quality, utility and image survivability of checks. Kirsten Jackson, U.S. Postal Inspection Service, will discuss potential security features for U.S. Postal Money Orders. The Identity Theft and Internet Fraud Working Groups are developing white papers. 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," and will hold a Forum on Electronification and Truncation on Oct. 17. The Debit Card Working Group is creating a mechanism for statistical tracking of debit card losses. Contact Robin Slade, robin@fsround.org

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

IT Service Providers

The Working Group is working on its four projects, planning for the Nov. 14 and 15 BITS/American Banker Outsourcing Conference in Washington, D.C., and collaborating with Roundtable and financial and technology associations to educate stakeholders on the *BITS Framework for Managing Technology Risk for Information Technology Service Provider Relationships*. Project teams working on vendor management best practices, disaster recovery and business continuity planning, and cross-border outsourcing will update the *Framework*. In October, the Security Assessments Project Team is launching an RFI to communicate high-level industry expectations to service providers, auditors and security assessment firms. Contact Faith Boettger, faith@fsround.org

*IT Service Providers Working Group
Co-Chairs: Lari Sue Taylor, FleetBoston
Viveca Ware, ICBA*

Patent Issues

USPTO Director James Rogan addressed members of BITS and The Financial Services Roundtable at Fall Conference. While the Roundtable continues work on a legislative agenda to support improvements in the patent process, a Task Force within the BITS Patent Issues Working Group is considering recommendations for changes in processes within the USPTO that could also serve as appropriate enhancements and refinements. The Working Group meets on an as-needed basis. Contact Cheryl Charles, cheryl@fsround.org

*Patent Issues Working Group Co-Chairs:
Mark Kesslen, J.P. Morgan Chase & Co.
David Schreiber, Citigroup*

Payment Strategies

Webb Edwards, Wells Fargo & Company, presented the case for an enterprise-wide payments perspective and management approach to the BITS Board of Directors at Fall Conference, stressing the increasing complexity and interdependence of payment applications. The Electronic Check Presentation (ECP) Working Group is developing economic models to help regional banks analyze ECP benefits. The Electronification Alternatives Payment Migration Model

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

Subcommittee is finalizing its strategic model. Contact Gary Roboff, garyrobof1@aol.com, or Leslie Mitchell, leslie@fsround.org

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

Security and Risk Assessment

The Steering Committee met in September to discuss ways to set priorities, modify its structure to encourage more active participation and better coordinate with related working groups, as well as to facilitate more “peer-to-peer” information exchange and focus on forthcoming regulatory issuances. The Working Group will continue to exchange information on security-related issues, focus on regulatory and critical infrastructure protection, address software product issues, and participate in a security assessment and measurement framework project. The SRA plans to prepare comments on the “National Strategy to Secure Cyberspace.” Contact John Carlson, john@fsround.org or Laura Lundin, laura@fsround.org

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

Standards

At its Sept. 27 meeting the Steering Committee heard MIT’s Michael Siegel discuss the context mediation approach to standardizing systems, an emerging technology to resolve semantic differences that can be a significant tool to enhance standards interoperability. However, it has not yet had a real market evaluation. The Committee is considering whether context mediation is at a point where such an evaluation is warranted, and, if so, what role BITS should play in structuring a test. The Committee continues to focus on straight-through processing for payments and brokerage, and statement integration as vehicles through which to develop the business case for more conventional means of standards integration. Contact Gary Roboff, garyrobof1@aol.com or Leslie Mitchell, leslie@fsround.org

*Standards Steering Committee
Chair: Dan Schutzer, Citigroup*

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MEMBERSHIP UPDATE

BITS welcomes new members State Street Corporation and Minnesota Mutual Life Insurance Company, as well as affiliate member the Canadian Bankers Association. BITS recently presented to the Executive Management Team of SouthTrust Bank. BITS also met with Household International to identify areas for increased participation, in order to achieve increased value from their membership. To learn more about BITS membership, please contact Ann Patterson at 202-289-4322, ann@fsround.org

National, *Continued from p. 4*

Security Strategy. The National Security Strategy’s section on financial services was developed in cooperation with BITS, with the support of the Boards of BITS and The Financial Services Roundtable. Sections of the financial services portion of the National Security Strategy were written and edited by members of the BITS Security and Risk Assessment Steering Committee and BITS staff, as well as FS/ISAC Treasurer Stash Jarocki.

Mr. Clarke spoke on cyber and physical security at the BITS Technology Forum at Fall Conference. His remarks addressed key themes of the Draft Strategy.

BITS STAFF

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Ben Stafford, Project Manager
Keviar Warner, Project Manager
Heather Wyson, Project Manager

BITS PROFILE

James E. Rohr is the Chairman and CEO of The PNC Financial Services Group. In April 2002 he was elected unanimously by the BITS Board as the new BITS Chairman. PNC was recently ranked No. 1 in the banking industry by *InformationWeek* magazine among the “leading businesses in technology” and also rated among the “100 Best Places to Work in Information Technology” by *Computerworld* magazine.

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.

The following interview appeared in Bank Systems & Technology on August 7, 2002, and is reprinted with permission. Mr. Rohr was interviewed by Ivan Schneider for the piece, entitled “Helping a Little BITS at a Time.”

BS&T: Tell me about your new role at BITS.

JR: Technology is critical to each and every one of our businesses. Take fraud detection. If you look at where we are after the tragedy of last year, obviously fraud detection is a much bigger issue than it was before. Fraud detection costs the industry a huge amount of money every year. [\$12-13 billion, according to BITS.] That’s a number that all of us need to be interested in. The other thing is that there are best practices that we share that enhance our ability to detect fraud.

BS&T: What other types of best practices are being shared?

JR: Some of the trends with the IT service providers, where some of it’s being done offshore today, for example. That’s an experience that’s shared and that everyone should have.

In payment strategies, there are cost issues to leverage the infrastructure of the industry to use electronic payments that are more convenient. Then you’ve got things like authentication. With the growth of e-commerce, clearly it helps everybody with security risk and crisis management.

BS&T: How do you rate the industry’s response to September 11th?

JR: As an industry, I think we did very well. The payments system maintained itself, and the vast majority of the backup systems were tested and worked. The security and survivability of the financial services industry was proven to be pretty good. Banks have been sharing the experiences across the industry so that we learn where we weren’t as good as we thought we were.

There’s room for improvement on the communications side, where BITS was very helpful in terms of being a vehicle for the CEOs to communicate collectively as to where we were.

BS&T: What technology initiatives are underway at PNC?

JR: We have Web-enabled all of our branches. So we have a single customer database that runs off a single data center. We have the single largest penetration in the industry of online customers as a percent of our total retail customers. Whether you’re touching us online, at the ATM, in the branch or in our call center, everybody has the same information and understands the most recent contacts you’ve had with any part of the company.

Our ability to enhance customer satisfaction, which is now at an all-time high for us, really is about seamless customer service, whether you’re utilizing the branch or any other form of technology. The branch now, because we’ve Web-enabled all the branches, is really just a part of our technology.

BS&T: What kind of ancillary products and services are you able to offer to your customers?

JR: We have the ability to cross-sell a whole series of other products. Whether it be loans, mortgages, credit cards or referring people to our investment products, it works exceedingly well. It’s gotten to the point now where 30% of our revenue in the branch bank, the regional community bank as we call it, is fees. So they’ve been very, very successful in cross-selling other products. We have a ways to go, but we clearly have made a lot of progress in that area.

BS&T: What are your expectations for the industry as a whole?

JR: I’m optimistic about the industry. We’re at the tail end of a recession, and [we’ve] weathered [it] rather well. When you throw in the terrorist attacks, I think the industry’s been very responsive, and has done well throughout this difficult economic period. I think we’re going to see a gradually-improving economy, and the banks should do well in that type of environment.

Banks are focused on the customer better than they have been before, and that includes not only servicing the customer, but also knowing the customer. That’s better for risk management, because the better you know your customer, the better you’re able to control the risks around the customer.