
BITS BULLETIN

A CURRENT REPORT OF ACTIVITIES FROM THE BANKING INDUSTRY TECHNOLOGY SECRETARIAT

FEBRUARY 1, 1999

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

BITS MISSION

The BITS Mission is to foster the growth and development of electronic banking and commerce in an open environment that will encourage greater choices in financial software, access devices, networks and processing capabilities for the benefit of financial institutions and their customers.

BITS INITIATIVES

- Accelerate the establishment of new electronic payment and product delivery systems by facilitating the development of interoperable specifications and standards.
- Create an environment for a safe and secure electronic infrastructure that will enhance financial service company brands and safeguard consumer privacy.
- Enhance consumer confidence and improve electronic access to financial services for the largest number of people.
- Enhance and support financial services brands.
- Leverage industry infrastructure to improve efficiencies and serve customers.
- Participate in the regulatory process for electronic commerce and payments.

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LETTER FROM THE CEO

Building on the accomplishments of a productive 1998, BITS' activities continue at a brisk pace, with all of the key initiatives on track. Updates on these key initiatives—including Fraud Reduction, Electronic Check Presentment (ECP), IFX, InteroperABILL and others—are reported elsewhere in this issue of the *BITS Bulletin*. I will add only one important footnote. Widespread, cross-industry cooperation led to the late January publication of the IFX business message specification and robust technical specifications for an interoperable bill delivery and bill payment system. Such collaboration among our member banks and the vendor community is not only essential in accomplishing most of BITS' work, but it also adds significantly to its value. We want to thank our members and those vendors for this impressive effort.

On the security front, two important developments are moving ahead. A BITS Security Symposium next month in Washington, DC will feature key experts and regulators in the financial services industry. The purpose is to address what the financial services industry is doing, and should do, to ensure safety and soundness as new technologies emerge. The Security and Risk Assessment Steering Committee is currently reviewing responses from organizations as prospective managers for the proposed BITS security lab, to be based in Washington, DC. We hope for a second quarter start date.

Two strategic issues have been identified by the BITS Advisory Group for work. Each will be the subject of presentations at the TBR Annual Meeting in April. The BITS *de novo* Steering Committee will present a preliminary framework for e-commerce, identifying key business areas, key players, and significant technologies with implications for the financial services industry. That work will provide a context for future e-commerce discussions and deciding what needs to happen on an industry basis. The Advisory Group will also report on a shared-utility initiative that analyzes existing bank-driven and/or bank-owned shared utilities—including an overview of the success factors, criteria for investing in and managing such utilities for the financial services industry in the emerging e-commerce environment and recommendations concerning where such utilities make sense.

Another major presentation at the April meeting is the initial report of the Privacy Working Group. This critical BITS initiative is progressing at the same time privacy concerns are heating up in the new session of Congress. The privacy project is a "first-of-its-kind," cost-based analysis of various scenarios for data sharing. With the materials developed by the Working Group, individual banks will be able to assess the economic impact of varying privacy outcomes. The project will also provide guidance to the entire industry in dealing with proposed regulations or legislation.

The April meeting promises to be both exciting (with the presentation of important deliverables on schedule) and controversial—as familiar issues take on new twists, and new ones continue to emerge.

Catherine A. Miller

BANKING INDUSTRY TECHNOLOGY SECRETARIAT

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COMMENTS FROM THE CHAIRMAN OF THE BOARD

BITS begins this year with increased participation by TBR companies and all the key initiatives/deliverables on track. I'll zero in on just two of these to show how our work with BITS is producing impressive results. The projected value of the Check Fraud Reduction initiative to the industry—beginning next year—is approximately \$1 billion out of projected losses of \$2.5 billion. Bank commitments are enabling BITS to establish a reporting methodology to provide industry-wide consistency in data collection. Banker education on fraud management programs is continuing and is critically important.

The projected value of the ECP/Electronification initiative is \$16 million annually to each TBR bank—and \$580 million annually to the industry in one to three years. BITS has contributed to and endorsed the work of SVPCo as a coordination point for multi-lateral ECP, and ECCHO, in providing private-sector, national-level rules. BITS and ECCHO are working on legal and regulatory barriers to ECP, and educational forums for banks are underway. BITS can take credit for playing a leadership role in moving the banking industry towards more cost-effective and efficient electronic payments—which benefits both our customers and shareholders.

Bank commitment to BITS initiatives is the key to achieving such success. We are making progress but still have some distance to go to get to the goal. If your bank has not already done so, you need to step up to full-fledged, formal commitment to these BITS' check fraud and ECP initiatives. To the banks' credit, TBR banks participate widely on BITS' working groups. Banker participation has increased with the recent establishment of the BITS Council. This is a group of senior people, mostly CIOs and CTOs, designated by the Chairs of The Roundtable Board and the rest of the top 35 bank holding companies. This expansion of the expertise available to BITS and TBR banks means greater strength and support in fulfilling BITS' mission.

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

STEERING COMMITTEE AND WORKING GROUP UPDATES

Special Advisory Group Project: Shared Utilities Initiative

Chair: Michael Zucchini, Fleet Bank

The BITS Advisory Group has identified as a strategic issue the assessment of the role of shared utilities in the financial services industries. The project is evaluating existing bank-driven and/or bank-owned shared utilities, e.g., check processing, home banking infrastructure. It will provide an overview of the key success factors, criteria for investing in or managing such utilities—and industry activities where utilities make sense. The aim of this project is to present banks and CEOs with a template for making decisions on an individual as well as an industry basis about shared utilities, especially in an e-commerce environment. A number of Chairmen and CEOs at the September meeting identified this as a critical issue for them.

“The optimal relationship between infrastructure and information is a high ratio of information to infrastructure. When a company gets trapped by its infrastructure, paying greater attention to infrastructure than to its flow of information, the company has lost the opportunity for real growth and may have difficulty surviving.”

Howard Sherman and Ron Schultz, authors of *Open Boundaries: Creating Business Innovation through Complexity.*

WORKING GROUP UPDATES

Continued from page 2

Standards Steering Committee

Chair: Libby Ghekiere, Bank of America

IFX

Chair: Kit Needham, BITS

A major initiative by the Standards Steering Committee to promote open and reliable interoperability in online financial services has advanced significantly, with the January 21 announcement of BITS' publication of the Interactive Financial Exchange (IFX) business message specification. This step accelerates the achievement of convergence between the GOLD and the Open Financial Exchange (OFX) standard. This is an important milestone in the creation of a single new standard which banks and technology partners can use to enforce a more efficient, technical approach to delivering online financial services.

Edward E. Crutchfield, BITS Board Chairman and Chairman and CEO, First Union Corporation, stated, "BITS is assuming a leadership role with this new business message specification to ensure that banks gain maximum flexibility and control over the technology used to support our online customers." He also noted that one of the effects of publishing the specification is significant potential savings to the banking industry on infrastructure, resulting in gains to the consumer in convenience, access and choice in a more dynamic and competitive Internet banking marketplace.

The business message specification, a complementary effort to BITS' work in developing an interoperable and trusted framework for open electronic bill delivery and payment (*see related article on InteroperaBILL*), facilitates the exchange and sharing of financial data and instructions between banks, their customers and service providers.

de novo Steering Committee

Co-Chairs: Allan Woods, Mellon Bank;
Frank Jaffe, Bank Boston

InteroperaBILL

Chair, Sharon Osberg, Wells Fargo

The IFX specification was posted to the BITS website (www.BITSinfo.org) on January 31st for a 30-day public comment period. The specification highlights work completed by the BITS-sponsored InteroperaBILL Technical Working Group. The Working Group consisted of more than 18 industry participants, including billers, technology companies and financial institutions.

The effort focuses on enabling an electronic bill delivery and payment framework to support open, interoperable and secure exchange of electronic bills

and the reliable delivery of payment and remittance information within the IFX specification. It is a robust set of specifications that allow for interoperability in the bill delivery and payment arena.

The ultimate objective of the InteroperaBILL effort is to ensure interoperability, so that all billers will be able to reach all customers and that all customers will be able to receive and pay bills electronically from all billers, regardless of the service providers chosen by biller or customer. Pilots with banks and vendors will occur this year to prove interoperability and messages will be sent to all billers and all consumers.

The IFX business message specification and on-going applications work will be managed within an open IFX governance forum beginning the end of March, 1999.

Both the IFX and InteroperaBILL specifications have been applauded by the industry as major contributions to facilitating this emerging business opportunity.

ATM/Point of Sale (POS) Networks Analysis

The *de novo* Steering Committee is reviewing the role of ATM/POS networks, especially with respect to ownership by third parties and associated risk management. This project began with a focus on consolidation and cost reduction, with an eye towards possibly leveraging existing infrastructure to create new business and revenue opportunities. Next steps await discussion of the BITS Advisory Group, with the Steering Committee to present the highlights of its findings at the February meeting.

E-Commerce Framework Project

Chair: Allen Gula, KeyCorp

Mapping the players, key technologies and roles for financial institutions in the e-commerce environment is the scope of this project, with a presentation being prepared for the BITS Board in April. Defining e-commerce (*Is it only Internet transactions or all electronic payment systems?*), examining the primary role of networks and defining various business options for financial institutions to consider (*Is online banking a product or a distribution channel? Does my institution want to be a distributor or a manufacturer?*) are among the many facets to be explored. Outcomes from this project will provide a basis for making individual bank, as well as industry, investment decisions, and will be used in educating Congress and regulators about financial modernization. Janey Place, former Co-Chair of the *de novo* Steering Committee, is coordinating this project as a BITS Consultant.

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Meeting Dates

BITS Board Meeting

April 8-10, 1999
TBR Annual Meeting,
Naples, FL

BITS Advisory Group Meetings

February 11, 1999
Washington, DC

March 11-12, 1999
Washington, DC

May 13, 1999
Chicago, IL

June 10, 1999
New York, NY

July 15, 1999
Santa Fe, NM

August 5, 1999
San Francisco, CA

October 14, 1999
Boston, MA

TBD
Phoenix, AZ

December 9, 1999
Washington, DC

BITS Industry Forums

May 12, 1999
Chicago, IL

July 14, 1999
Santa Fe, NM

October 13, 1999
Boston, MA

December 8, 1999
Washington, DC

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WORKING GROUP UPDATES

Continued from page 3

Industry Infrastructure Steering Committee

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

Electronification: ECP

Chair: Mike Pasiectki, Chase Manhattan
As part of its ECP initiative, BITS on January 6th endorsed the work of the Electronic Check Clearing House Organization (ECCHO) and the Small Value Payments Company (SVPCo) in furthering the use of Electronic Check Presentment (ECP). ECCHO, formed in 1990, is endorsed as the private sector's rules-making body for ECP at the national level, while SVPCo is the coordination point for multi-lateral ECP for the banking industry. BITS' role in facilitating this industry coordination has been acknowledged by both groups.

According to Austin Adams, Co-Chair of the BITS Industry Infrastructure Steering Committee, and Executive Vice President of First Union Corporation, "This type of collaboration is absolutely critical to our efforts to move the banking industry into the new world of more cost-effective and efficient electronic payments—a world where our customers and shareholders will profit."

The movement towards electronification of checks means significant savings for the industry in processing costs and will reduce the risk to banks from fraudulent items. BITS' member banks are committed to implementing ECP and would like 50% of available checks to be processed with ECP by 2001. However, BITS recognizes that not all banks can participate in a clearinghouse and is collaborating with ECCHO to work with the Federal Reserve (*see following article*) and private sector organizations to facilitate a method allowing all institutions to be covered by a standard set of rules.

As part of this important BITS' initiative, regional ECP Forums are being conducted to enable more banks to participate in ECP. The first ECP Forum, held in December, had a strong turnout of senior people representing a wide cross-section of banks. The Forum included presentations from SVPCo, the Federal Reserve Bank of Atlanta, and ECCHO. Four additional introductory, one-day forums will be held in coming weeks to provide detailed background on ECP, including ECP benefits, the legal environment, and an overview of implementation issues and considerations. Dates and locations are: March 10th, Philadelphia; March 23rd, Atlanta; March 24th,

Kansas City; May 18th, Chicago. Two additional Forums will be held (May 5th-6th, Dallas and June 7th-8th, Chicago) to provide bankers with an advanced and in-depth look at the ECP implementation process. In conjunction with this education effort, BITS continues to obtain widespread bank commitments to ECP. BITS, ECCHO and SVPCo will continue to work together to monitor ECP legislative and regulatory developments and to provide additional education opportunities.

Electronification: Alternatives Task Force

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

The Electronification Alternatives Task Force has scheduled a meeting for March 4th to further BITS' overall efforts to drive electronification of payments.

BITS and ECCHO Representatives Meet with Federal Reserve on Payments System and Electronic Commerce

In a January 22nd meeting with Federal Reserve officials, BITS CEO Catherine Allen; BITS Electronification Alternatives Task Force Co-chair Janet Smith, Executive Vice President, Wachovia Operational Services Corporation; and David Walker, Executive Director, ECCHO, met with other interested parties to discuss the evolution of payments systems and business-to-business commerce, including ECP. They were joined by representatives of financial services and public interest groups. The Federal Reserve was represented by Vice Chair Alice Rivlin; Governors Roger Ferguson and Mike Kelley; William McDonough of the Federal Reserve Bank, New York; Cathy Minehan, Federal Reserve Bank, Boston; and various members of the staff.

The agenda explored current weaknesses of the payment systems as well as projections concerning the payment environment ten years from now. BITS and ECCHO emphasized the importance of actively supporting: 1) a uniform set of national ECP and check rules for all check exchanges, both public and private; 2) electronic check returns; 3) Uniform Electronic Transactions Act (UETA); and 4) UCC articles 3 and 4 which deal with negotiable instruments.

BITS also recommended The Fed support educational forums on ECP and Fraud and that they set up a group to monitor e-commerce activities with regard to risk and stability of the payments infrastructure.

WORKING GROUP UPDATES

Continued from page 4

Fraud Reduction Program

Chair: Nancy Cloyd, Bank of America

The second major BITS Fraud Reduction Forum is scheduled for February 22nd in Las Vegas, with a special focus on serving banks in the West. The Forum is the continuation of the BITS education program aimed at senior bank officers responsible for check fraud management programs. Participants will also include representatives of check clearinghouses and other information exchange groups. The Forum provides participating banks with a work plan, created by BITS Working Groups, for implementation of the fraud reduction program, a check fraud reporting template for the standardized collection of data, and a matrix of database vendors, along with the required data elements for a shared database. Registrations are still being accepted from TBR banks that want to become more knowledgeable about the next steps of the BITS Fraud Reduction initiative. Call Jessica Hymowitz at BITS (202-289-4322) for details.

A number of banks have adopted the standardized definitions and categories for collecting fraud-related data. Six Regional Fraud Roundtables are being formed where banks can discuss successful strategies and best practices for reducing check fraud. The American Bankers Association has been selected as the service provider to support the regional roundtables. The Fraud Statistics Committee has been working with existing bank-driven data collection efforts to spread the adoption of a standardized data collection and distribution process. In addition, the Fraud Reduction Working Group is compiling a list of legal and regulatory impediments to fraud reduction for review by the Legal and Public Policy Working Group.

Research and Communications

Steering Committee

Chair: Gary Roboff, The Chase Manhattan Bank

More than 200 bills containing privacy issues were introduced in the last session of Congress, as public fears about exploiting confidential data stimulated legislators to propose potential legal and regulatory changes. The late-January announcement by Intel of a new chip technology has also aroused new fears about its impact on individual privacy.

As this emotional issue continues to gain momentum, the Privacy Working Group will complete the initial phase of its "Fact-Based Analysis of the Privacy Issue," with a major presentation planned for the April BITS Board meeting. The deliverable will include a tool for individual banks to dimension the

data sharing issue in business terms while also providing guidance to the entire industry with regard to pending legislation or regulations. Through use of scenarios in combination with Process and Systems Models, banks will be able to develop economic assessments for internal bank use.

Security and Risk Assessment

Steering Committee

Co-Chairs: William Randle, Huntington Bank,

Peter Browne, First Union

A BITS Security Symposium, co-sponsored by *The American Banker*, is scheduled for March 9th-10th in Washington, DC. Some 200 bankers and financial representatives are expected to attend, with a reception on March 9th kicking off the one-day meeting. The program focuses on the role of financial institutions in ensuring security in e-commerce. Speakers will include key experts and regulators in the financial services industry. Panel discussions will address BITS' security initiatives, related regulatory initiatives, and certificates and encryption developments. The purpose of the Forum is to educate the industry and regulators on the fact financial institutions are aware of and taking a leadership role in the areas of security and risk management. The *Dateline* show on PC banking and viruses has been rescheduled until after this meeting.

The proposed BITS Security Lab is closer to reality, with a target of being operational in the second quarter of the year. In February, the BITS Advisory Group will receive a report from the Steering Committee, which is currently reviewing proposals from prospective managers of the lab. The Advisory Group will then evaluate operational options as well as the role of vendors, and will make recommendations concerning management and location of the lab.

Legal and Public Policy Working Group

Co-Chairs: John Burke, Foley, Hoag & Eliot, LLP;

Rich Whiting, The Bankers Roundtable

The Legal and Public Policy Working Group has continued its active support and involvement in the BITS Privacy Scenarios Project. In addition, it has provided guidance and support to the Industry Infrastructure Steering Committee in helping to determine where legal and regulatory changes need to occur and to take action on BITS' behalf to enable the growth of electronic commerce—and specifically to speed up electronification.

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BITS PROFILE

Editor's Note: This is the first in a series of interviews with members of the BITS Board of Directors, BITS Advisory Group and other key leaders in electronic commerce and financial services.

Daniel Schutzer is Vice President and Director of External Standards & Advanced Technology, e-Citi, CitiGroup. He is Chairman of the Board of the Financial Services Technology Consortium (FSTC) and represents FSTC on the BITS Advisory Group. He also serves on the Advisory Board of the National Academy of Sciences.

BITS: What benefits for consumers do you see as a result of emerging technologies in the financial services arena?

DS: Emerging technologies—and the Internet in particular—provide consumers with many benefits, including the potential for:

- **Greater convenience**—Consumers can access their financial accounts in real-time, anytime, anyplace, anywhere and can use software agents to automate their routine tasks.
- **Better access to information**—Consumers can obtain financial information about products, their features, their returns and associated costs.
- **Capability to integrate personal financial information and transactions.** Consumers can have their information organized in an integrated way—that is, aggregated—and can also integrate their transactions across financial institutions.
- **Greater personalization**— This is customization.
- **Ability to transact at lower costs.**
- **Greater security**—This comes with the introduction of strong cryptography, e.g. digital signatures and public key encryption (PKI).

BITS: How are new technologies enabling business-to-business commerce growth in the financial services sector—with what benefits to businesses?

DS: In the short-term we can expect new technologies, such as the Internet and the companion eXtensible Mark-up Language (XML) standard, to permit businesses to operate more efficiently, reducing the dependency on manual and paper-based processes. For example, they permit corporations to more easily access and exchange information and electronic documents with their trading partners; provide more flexibility in the way information is defined and exchanged among trading partners; enable more rapid formation of ad-hoc business relationships; and facilitate more timely exchange and tracking of the status of designs, orders and payments between the trading partners. This ranges from more efficient processes for corporate procurement of standard products and services to more efficient administration of employee services such as employee benefits. All of this makes it easier to operate globally, and to communicate across many different locations and time zones, and to manage and coordinate many different simultaneously-occurring processes.

Over the longer-term we should see fundamental changes in the current business processes and value-chains, with the elimination of many existing intermediaries' functions, and the creation

of new ones, including the emergence of many new forms of electronic markets. These changes will create many new challenges, threats and opportunities.

BITS: You talk eloquently about the opportunities for consumers and businesses in the electronic commerce environment. Give us a few examples of what you see as among the most dramatic and positive opportunities taking shape? What do you think are some of the biggest challenges facing banks and the financial services sector in the environment of electronic commerce?

DS: The new technologies shift the balance of power to the purchaser of goods and services. For example, powerful agent technologies, interfaced to the Internet, permit the customer to find the best value among many competitive offerings and take more real-time action. They also enable automation of routine tasks, allowing individuals and businesses to focus on activities that most require their attention.

Some of the biggest challenges are finding how best to adapt to the changing business environment brought on by these technology advances, avoiding disintermediation and commoditization of our products and services, and taking advantage of new services, products and revenue opportunities.

BITS: What is the unique role of the FSTC in this new environment?

DS: FSTC plays both an education role and a standards-related role. We identify technology trends and issues of importance to the financial services community and provide insight and understanding. We explore and support pre-competitive research in areas that are of mutual interest, and where cooperation and resource-sharing is important. Through prototyping and pilots we test these new technologies and pre-competitive research solutions as to their applicability to our business needs. And, we hand-off many of our successful findings and specifications—to appropriate standards bodies and financial institution associations/utilities for implementation and maintenance of an applicable standard, and to our businesses and vendors for commercialization.

For more information on FSTC, see www.FSTC.org