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# BITS BULLETIN

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

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**JULY 2000**

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**

A recent article on Internet banking, "Who Offers Internet Banking?" (OCC's *Quarterly Journal*, June 2000), points out that, to date, "much of the analysis of the benefits and impact of Internet banking has been based on anecdotal evidence and conjecture."

Based on a 1999 survey of national bank examiners, the article presents data on the number of national banks offering Internet banking and projects the extent of online banking at the beginning of 2001. Some of the article's main findings:

- Only 20 percent of national banks offered Internet banking in the third quarter of 1999. However, as a group, these "Internet banks" (those offering customers the ability to transact banking online) accounted for almost 90 percent of national banking system assets, and 84 percent of small deposit accounts.
- All of the largest national banks offered Internet banking, but only about 7 percent of the smallest size banks offered it.
- Institutions with Internet banking generally outperformed non-Internet banks in terms of profitability.
- A projected 45 percent of all national banks will offer Internet banking by the beginning of 2001, with most of the growth due to small banks coming online. At the same time, almost half of all national banks had no plans to offer Internet banking.
- From an estimated 5 million U.S. households banking online in 1999, analysts expect growth of up to 32 million households over the next several years. However, that level of usage would represent only about one-third of the 93 million U.S. households with a banking relationship.

This last point seems to raise significant questions about the intensity and locus of consumer demand for Internet banking. Other industry figures put the number of current online banking users in the U.S. as high as 12 million in 1999. However, these findings must be viewed in the context of all online financial services in the U.S.—and not just online banking.

Online trading and other Internet financial services have been growing dramatically. According to Forrester Research, 3.1 million households ran 5.4 million online investing accounts by the end of 1999, managing assets of \$374 billion. Gomez Advisors reports that the number of 1999 online brokerage accounts in the U.S. has more than doubled since 1997. More recently, Forrester reported that most of the households in North America with investable assets of at least \$1 million are more likely than other investors to maintain accounts with discount or Internet-only brokerages. Forrester has projected that Internet sales of personal insurance will grow to \$1.1 billion in 2001.

(continued on page 8)

# BITS

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R O U N D T A B L E

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

BITS held its first Aggregation/Screen Scraping Forum on June 7<sup>th</sup> in Washington, DC, with about 130 invited participants, including regulators, aggregators, technology providers and representatives of financial institutions. The Forum identified and addressed issues to develop a comprehensive set of voluntary business practices for financial aggregation. More details on the Forum and future actions appear in the article on page 3 of this issue of the *BITS Bulletin*.

The BITS Aggregation Initiative is a good example of how BITS tackles a new or emerging issue—on Internet time. Because BITS can move quickly, it can effectively bring together the thought leaders on key issues. Working Groups on aggregation issues were formed rapidly with representation across industries, including regulators. Members will meet frequently over the coming months to accomplish results in a short timeframe. Our goal is to ensure that the financial services industry is a leader in aggregation while protecting the integrity of our customers' information.

Other new BITS Working Groups are being organized to explore Business Process Patents, Wireless Technology Strategies, and Outsourcing Business Practices. If you are interested in having your company participate in these or any other of BITS' Working Groups, contact Catherine Allen or other members of the BITS staff. I believe that your company will benefit, along with the entire industry.

BITS also has a Working Group looking into authentication of financial transactions, particularly with respect to B2B e-commerce. Secure authentication of all kinds of Internet financial transactions will become easier and faster now that legislation authorizing digital signatures has been adopted. I commend the Roundtable and its staff for its role in promoting digital signatures. As Secretary of Commerce Daley said, the legislation "will benefit every sector of our economy...By establishing the legal validity of electronic contracts and online disclosures, this legislation provides businesses with the certainty they need to move more commerce online...And most importantly," he added, "by ensuring that consumers in cyberspace will have legal protections, [the legislation] bolsters the consumer confidence that is so critical to the success of this new medium of commerce."

Have a great summer! I appreciate your encouragement and support.



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

## REPORT ON KEY INITIATIVES

### Aggregation Strategies

The first BITS Forum on Aggregation/Screen Scraping was held on June 7<sup>th</sup> in Washington, DC, with about 130 invited participants, including regulators, aggregators, technology providers and representatives of financial institutions. The Forum identified issues to develop a comprehensive set of voluntary business practices for financial account aggregation. Security was identified as the highest concern. A number of action steps were outlined in the five SubGroups (named below) and a second Forum is planned for late summer or fall.

- Legal & Regulatory – Chair: John Lee, Wells Fargo
- Security Criteria – Chair: Roger Callahan, Bank of America
- Privacy Practices – Chair: Gary Roboff, Chase Manhattan
- Technology & Standards – Chair: Dan Schutzer, Citigroup
- Customer Education – Chair: Hilary Blackburn, Summit Bank

Among the issues identified for future action are:

- Legal and regulatory clarity on aggregation activities, particularly authentication and impact of Reg E
- Technologies and standards to address issues like identity theft, other fraud types, and the potential certification of aggregators
- Security requirements to be universally applied to all aggregators, defining a financial institution's responsibility for monitoring screen scraping, and recourse in the event of unauthorized access to customer information
- Privacy concerns to be addressed, in this case with real-time, online data (as opposed to warehoused data), particularly in the event of error resolution, and scenarios involving customer wishes to be anonymous versus permission to aggregate
- Consumer education and disclosure so that consumers understand the distinction between non-financial institution aggregators and financial institutions that provide aggregation, and to disclose conditions of services, inform consumers of rights and responsibilities, e.g., updating of authentication information

Contacts: Kit Needham and Peggy Lipps, BITS, at 202/289-4322, Kit@fsround.org, Peggy@fsround.org.

*BITS Aggregator Working Group*

*Co-Chairs: Gayle Wellborn, First Union; Steve Katz, Citigroup*

### Wireless Technology Strategies

The new BITS Wireless Working Group is identifying and prioritizing key issues, as it continues the selection of chairs for three SubGroups (named below). Early participants in the Group include: Bank of America, Edward Jones, First Union, Huntington, Mellon, Mercantile Bankshares, Nationwide, National City Corp., Northern Trust, PNC, Raymond James, and Synovus, along with the ABA and ICBA.

- Wireless Security Subgroup – Chair: Sam Phillips, Bank of America
- Wireless Standards Subgroup – TBD
- Wireless Market Applications Subgroup – TBD

The Group helped organize the Wireless Security Forum on June 6<sup>th</sup>, held in conjunction with the BITS Security and Risk Assessment (SRA) Steering Committee meeting in Washington, DC. Sam Phillips, Bank of America, and Chair of the Wireless Security SubGroup, served as moderator at the Forum on “Wireless Security: Is It an Oxymoron?” Five representatives of technology providers presented on the topic, including the MITRE Corp., RSA Security, 724 Solutions, VeriSign, and TeleHubLink Corp.

The Wireless Working Group has briefed the BITS Advisory Group and Council on industry trends and emerging wireless solutions/standards. Jack Stephenson of McKinsey & Company presented their overview assessment of the market. The Group is also working with Lafferty Communications to identify European wireless trends and issues. BITS Director Alice Cho was a presenter on BITS' Wireless Initiatives at Lafferty's Internet Financial Services Summit in London on July 5<sup>th</sup>. Other activities include collaborating with the Financial Services Technology Consortium (FSTC) on a wireless agenda. The Working Group is still accepting members.  
Contact: Alice Cho, BITS, 202/289-4322, Alice@fsround.org.

# BITS

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

*Wireless Working Group*

*Co-Chairs: Bill Randle, Huntington National Bank  
and TBD*

**KEY INITIATIVES, CONTINUED**

**B2B E-Commerce Utilities and Authentication Initiatives**

The B2B E-Commerce Utilities Working Group is fleshing out business specifications for B2B utilities. Members are focused on concepts and models, looking at existing utilities, shared utilities, and competing utilities. The goal is to make recommendations on what kind of utilities make sense and seem most efficient in B2B e-commerce. The Working Group is also collaborating with other industry groups, including Identrus' Working Groups, SWIFT, New York Clearing House, NACHA and its Internet Council. Members have contacted the Association for Payment Clearing Services, a consortium of clearinghouses in the United Kingdom, to establish a dialog on security frameworks and e-commerce .

Participants in the B2B Utilities Working Group include: Assurant, Bank of America, BB&T, Chase Manhattan, Citigroup, Comerica, First Union, Huntington, ICBA, KeyCorp, Mercantile Bankshares, M&I Data, PNC, Wells Fargo and Whitney.

The Authentication "SWAT" Team has been formed, with Dan Schutzer, Citigroup, as Chair. Early participants include: ABN AMRO, Chase Manhattan, Citigroup, First Union, Northern Trust and Wells Fargo. The Team has begun identifying and cataloging B2B authentication tools and technologies currently in use. Members will be looking at security functionality, interoperability and other business requirements in evaluating categories of technologies like digital certificates, biometrics and PKI. They will work with technology providers to better understand product functionality and efficacy. The B2B Working Group and the Authentication SWAT Team will meet in Minneapolis on July 20<sup>th</sup> to review interim findings and discuss various scenarios. Contact: Alice Cho, BITS, at 202/289-4322, Alice@fsround.org.

*B2B Utilities Working Group  
Co-Chairs: Rodney Chard, Whitney National Bank  
Peter McNally, Assurant  
Authentication SWAT Team  
Chair: Dan Schutzer, Citigroup*

**Business Process Patents Working Group**

An industry-wide effort is underway to work with the US Patent Office in the area of business process patents. One of the greatest needs is to establish a library of "prior art." Co-chairs for the BITS Business Process Patents Working Group are being selected from among the members of the BITS Legal & Public Policy Working Group, composed of in-house counsel from FSR member companies. Early participants in the Working Group include: Chase Manhattan, Huntington, Mellon, PNC and Regions Financial Corp. The Working Group is collaborating with the American Bankers Association (ABA), BAI, NACHA and ITAA. Contact: Cheryl Charles, BITS, at 202/289-4322, Cheryl@fsround.org.

**Outsourcing Business Practices Working Group**

A new BITS Working Group on Outsourcing Business Practices has been formed under the auspices of the Security and Risk Assessment (SRA) Steering Committee. Increasingly, financial institutions are outsourcing information, transaction and technology activities to third-party service providers. While the operational risks associated with these services are the same, the service provider rather than the financial institution has contract responsibility for risk management, security and privacy measures.

The Federal Reserve recently issued a Supervision and Regulation Notice (SR) related to third-party outsourcing. The BITS SRA, ICBA, OCC and Office of Thrift Supervision (OTS), have also raised concerns about third-party outsourcing issues. The Working Group's mission is to research the control, security and reporting requirements for third-party outsourcers and Application Service Providers (ASP). The Group will work with financial services institutions, regulators and the providers/outsourcers to address the critical issues of mutual concern. Contact: Faith Boettger, BITS, 202/289-4322, faith@fsround.org.

*Outsourcing Business Practices Working Group  
Co-chairs: Sharon O'Bryan, ABN AMRO; Viveca Ware, ICBA  
and Jim Dempster, M&I Data Services*

### **Security and Risk Assessment**

The Security and Risk Assessment (SRA) Steering Committee has been expanded from its original seven member institutions to 31 members at present. The expansion reflects the increased attention on cyber-security issues by both the industry and the public. The financial services sector loses billions of dollars each year as a result of hackers, cyber-fraud and other technology attacks. The expansion of the SRA will also encourage greater participation by the wider base of new members in The Financial Services Roundtable.

The participants in the expanded SRA are: American Bankers Association, ABN AMRO, Allfirst, AMSouth Bank, BB&T, Bank of America, Bank of New York, BANK ONE CORPORATION, Centura, Chase Manhattan Bank, Citigroup, Comerica, First Union, Fortis/Assurant Group, Goldman Sachs, Harris Bank, Huntington National Bank, KeyCorp, M&T Bank, Mellon Bank, Mercantile Bankshares, Nationwide, Northern Trust Bank, PNC Bank Corporation, Raymond James Financial, Regions Financial, Summit Bank, SunTrust Banks, USAA, Wells Fargo, and Whitney National Bank.

The SRA is governed by an Executive Committee whose Co-Chairs are Peter Browne, First Union and Rhonda MacLean, Bank of America. Steve Katz, Citigroup, is Vice Chair of the Executive Committee. Bill Randle of Huntington National Bank, former SRA Co-Chair, will remain on the Executive Committee while he also co-chairs the new Wireless Technology Working Group. A Government Advisory Forum and an Industry Advisory Forum have been created to provide for regular participation in SRA activities by government representatives and related industries such as technology providers and outsourcers. Bill Sentenac, Wells Fargo, is now Chair of the Security Lab Governance Committee.

The three major focus areas for the SRA are the BITS Financial Services Security Lab, the Financial Services Information Sharing and Analysis Center (FS/ISAC), and regular security briefings on current and emerging topics. For example, a Wireless Security Forum was part of a June 6th meeting of the expanded SRA, with five technology providers addressing the group on security

aspects of wireless access technologies. The SRA hosted a Smart Card Meeting on July 11<sup>th</sup> to review domestic and international issues in smart card deployment and related security concerns.

The SRA will meet in Santa Fe, NM in August, joining the BITS Fraud Working Group in a joint Security Forum, with presentations by Sandia Labs and Los Alamos National Laboratory.

The SRA interacts with other of BITS' initiatives, as cyber-security concerns run across-the-board, affecting activities of the Wireless, Fraud, Business Process Patents, Aggregation, and Privacy initiatives. The SRA is also working with Roundtable staff to address security concerns in the legal and regulatory area.

Federal banking regulators early this month jointly proposed a rule to establish standards for safeguarding the security, confidentiality and integrity of customer information. The proposed rule, issued to satisfy provisions of the Gramm-Leach-Bliley Act of 1999, would implement standards as safety and soundness guidelines, rather than regulations. Financial institutions are required to implement a customer security program by July 1, 2001. Comments on the Proposed Rule are due by August 25, 2000.

The SRA is holding a conference call this month with the banking regulatory agencies to discuss the proposed Rule and its implications for the financial services industry. The SRA will then discuss steps required to prepare for a July 2001 compliance schedule. The SRA is also reviewing the implications of the recently adopted legislation authorizing digital signatures.

The Profile Development process for the BITS Financial Services Security Lab is making progress, with more product categories being approved for testing. Participation by financial institution members is welcome at any point in the profile development process. Contacts: Peggy Lipps or Faith Boettger, BITS, at 202/289-4322, Peggy@fsround.org, Faith@fsround.org.

*Security and Risk Assessment Steering Committee  
Co-Chairs: Peter Browne, First Union  
Rhonda MacLean, Bank of America*

*Lab Governance Committee Chair: Bill Sentenac, Wells Fargo*

••••• **UPDATES ON ONGOING INITIATIVES** •••••

**Privacy Working Group**

BITS' cooperative project with BAI to conduct a "Study of Consumer Behaviors Related to Privacy and Security of Information Use" is progressing. An RFP was issued to six pre-selected, nationally known vendors and the selection process is nearing completion. The study is significant in that it will fill a gap in terms of understanding consumers' financial services behaviors and the extent to which concerns about privacy and security of information may affect those behaviors. A meeting to brief members of The Financial Services Roundtable about this project will be held on July 20<sup>th</sup> in Washington, DC. Contact: Cheryl Charles, BITS, 202/289-4322, Cheryl@fsround.org.

*Research and Communications Steering Committee  
Chair: Gary Roboff, Chase Manhattan Bank*

**Fraud Reduction Program**

The BITS Fraud Working Group (FWG) hosted its second Retailer Forum in May. Major retailers attending were Kroger, Costco, Foley's, Belk, K-Mart, the Marmaxx Group and Montgomery Ward. Participating financial institutions were Bank of America, Chase Bank of Texas, First Union, Citibank, FleetBoston, BANK ONE and Wachovia. Discussions centered on check fraud issues as well as privacy issues and Internet fraud. Among the actions agreed to: coordination between the FWG and retailers to educate legislators on the need to share information for fraud prevention purposes, and involvement of retailers in the BITS Authentication Initiative. The next Retailer Forum is scheduled for October 2000.

The Fraud Working Group has finished developing standard definitions and measurements for fraud loss avoidance reporting. A pilot is underway through 2000, with implementation planned for next year.

The Fraud Working Group will meet in Santa Fe, NM in August, joining the BITS Security and Risk Assessment Steering Committee in a Security Forum, with presentations by Sandia Labs and Los Alamos National Laboratory. Contact: Alice Cho, BITS, 202/289-4322, Alice@fsround.org. *Fraud Working Group  
Chair: Nancy Cloyd, Bank of America*

**IFX Forum**

More than 50 people attended the second IFX Overview and Detailed Implementation Workshop, which was hosted by Wells Fargo in San Francisco on June 21<sup>st</sup>. Two new working groups are being formed. The first is Loan Applications, chaired by Credit Online. The other working group is Retail Brokerage, to begin in the fall.

The Loan Applications Group will be developing standardized online loan application forms to allow for automated and expedited processing/approval of loan applications taken on the Internet. The Group will begin with car loans and car leasing, then move to credit cards and mortgage applications. For more details on joining a Working Group, contact Dennis Warnke at Credit Online 301/362-6090, dwarneke@credit-online.com.

Membership in the IFX Forum is now at 33 organizations. The next version of IFX, 1.1, is targeted for release for public comment in the fall. This version will allow for expanded functionality in electronic bill presentment and payment as well as business banking. ACORD will also be publishing the IFX insurance standards. For more details, see www.IFXforum.org, or contact Kit Needham, BITS, at 202/289-4322, kit@fsround.org.

*IFX Forum  
Chair: Kit Needham, BITS*

**ANNOUNCEMENTS**

BITS will help sponsor the **Global InfoSec Summit in Washington, DC on October 16 17, 2000**. This inaugural event is sponsored by the Information Technology Association of America (ITAA), and will gather industry and government leaders from around the world to discuss the critical issues of information security and infrastructure assurance. BITS SRA Vice Chair Steve Katz is on the conference planning committee for the InfoSec Summit. Through BITS' involvement, financial institutions that are members of The Financial Services Roundtable may attend the Summit at ITAA-member rates (\$295 as opposed to \$345 for nonmembers).

Participants will learn trends and developments in global information security policy, (continued on page 8)

## **BITS PROFILE** .....

**Jean E. Davis** is Senior Executive Vice President, Wachovia Corporation, and President of Wachovia's Operational Services Corporation. She represents Wachovia on the BITS Advisory Group. As Wachovia's technology and operations chief, she has responsibility for banking operations, information processing, systems development, telecommunications, remittance services, credit operations and investment operations for all the parent corporation's member companies.

*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:** Wachovia has a reputation for being on the leading edge of technology developments. What are some of the aspects of Wachovia's e-commerce strategy, particularly the role of strategic alliances?

**JED:** We have seen a shift in the past couple of years in the ways that financial institutions view technology. The creation of BITS and its industry support are evidence of that, I believe. Previously, most of our industry regarded technology as a tool to make operations more cost-effective, to help us connect branches and streamline payments processing. Today, increasingly, I see financial institutions looking to technology to better serve customers, to provide them with more direct access to financial services.

Wachovia has been using technology solutions for some 20 years, primarily in the personal banking area. Technology has helped build strong personal relationships, providing our customers with state-of-the-art resources for full-service banking. We have found that training our personal bankers and providing them with desktops enables better relationship management.

We have a strong focus on Internet banking and have invested heavily in a platform for online banking products. Even without promotion, we have a very high penetration of online banking—20 percent of our retail customers are banking online. That tells us that this is attractive to customers and we will continue to make investments to ensure that the platform is scalable and has the degree of functionality and personalization that customers desire. We have also begun to offer wireless applications. It is clear that customers value the ability to move money and get account information any time, anywhere.

Wachovia has had a Web site for about two years and was one of the first banks to post a privacy policy online. We regard privacy concerns as significant and appreciate the leadership BITS has shown in this area, as well as in security issues.

Where we previously emphasized online banking in the retail side, we now are using technology and promoting e-commerce in all of Wachovia's business lines. A year ago, we restructured the management of e-commerce so that it now reports directly to the president of the corporation. The information systems, which support these business lines, are

in my area of responsibility, but the e-commerce business strategy, for both retail and commercial, is managed by others.

In terms of strategic alliances, we have found that these can take many forms. It might be an alliance between Wachovia and a software provider or a wireless provider. It might be Wachovia selling another firm's products, or another firm distributing Wachovia's products. We have engaged in all kinds of alliances and believe that they are necessary to deliver added value to the customer, both commercial and retail.

**BITS:** How would you describe the value of participation in BITS' Advisory Group and its initiatives?

**JED:** BITS has been very on-the-mark and proactive in identifying those issues that are going to hurt us and help us as an industry. I have been particularly pleased to see the aggressive work on aggregation, helping to identify the risks and challenges associated with screen scraping and account aggregation. Several Wachovia people have been very active in BITS' initiatives and we have found that to be quite beneficial.

**BITS:** In reviewing your personal history, we note that you joined Wachovia in 1985 as a national banking representative and then moved to a position as corporate calling officer in the New York office. Some 11 years later, you were put in charge of integrating two Virginia bank acquisitions after a merger. How did that leap occur?

**JED:** That's right. I did not "grow up" in technology or operations. My early work was in sales and relationship management, then, customer strategies. I don't know how unusual it is these days, with all the changes that have occurred in this industry. I see other banks doing this more and more, pulling individuals with customer expertise into new areas to help define technology solutions. Again, I see it as part of the industry's shift into a more dynamic way of making technology work to add value for the customer.



Jean Davis, Wachovia

## CEO LETTER, CONTINUED

Looking at online financial services worldwide provides even more perspective. According to the Angus Reid Report, an estimated 25% of Internet users worldwide have already made an online financial transaction. Online transactions have made greater inroads among Internet users in Europe and Canada than in the U.S.

These statistics indicate the rapidly changing business environment in which our industry—and BITS—operates. The authorization of digital signatures, along with proposed federal rules on privacy and security safeguards, also affect e-commerce and financial services institutions. The market is moving in “Internet time” and financial institutions must keep pace.

Among BITS’ key initiatives are several that are focused specifically on Internet-based financial transactions and their impact on our industry. Much of the work BITS’ Working Groups accomplish this summer will be ready for Board action in September. We encourage you to get involved.



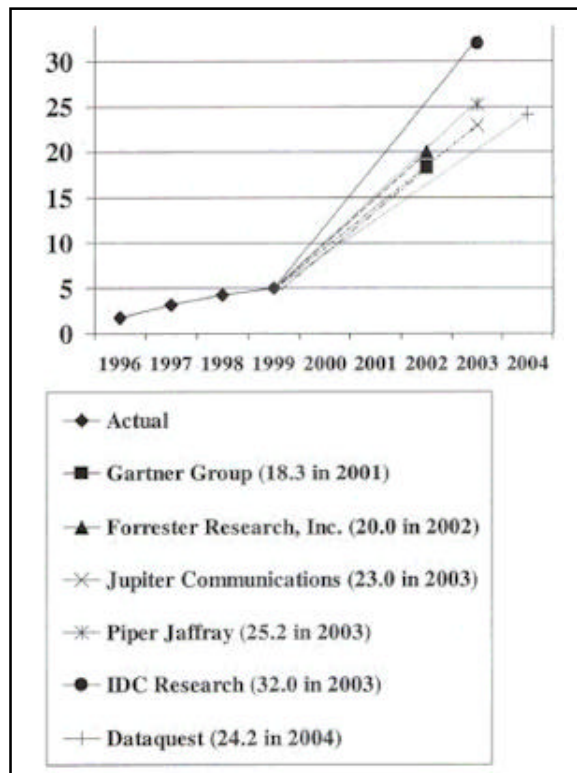
### Announcements

(continued from page 6)

technology, and partnerships. For more details, contact Faith Boettger, BITS, 202/289-4322, Faith@fsround.org or Doug Sabo, ITAA, 703/284-5325 or dsabo@itaa.org.

The Financial Services Technology Consortium (FSTC) has formed the **Automated Imaged Signature Comparison (AISC) Project** to detect check forgeries. “We commend this important new FSTC project,” says Catherine Allen, CEO of BITS. “Its goals are consistent with two of BITS’ highest priorities: check fraud prevention and electronification of checks.” FSTC is one of BITS’ strategic partners and is represented in a liaison role to the BITS Advisory Group by Dan Schutzer, Citigroup.

Participants in the AISC project will identify and evaluate current research and technologies designed to automatically compare signatures on checks presented for payment against those in a reference file. Phase One began on May 1<sup>st</sup>, with the following participants: Bank of America, Bank One, Chase Manhattan, Citibank, Wachovia, Wells Fargo and the Retail Payments Office of the Federal Reserve System. Institutions wishing to participate may contact Zachary Tumin, FSTC, 914/576-7629, zachary.tumin@fstc.org.



**Industry Forecasts of Internet Banking**  
(millions of U.S. households banking online)

Source: Office of the Comptroller of the Currency using data from various industry sources.

### BITS Staff

Catherine Allen, CEO  
Tanya Bailey, Director, Meetings  
Wattie Bennett, Executive Assistant  
Faith Boettger, Senior Director  
John Burke, Outside Counsel  
Cheryl Charles, Senior Director  
Alice Cho, Director  
Barbara Harrelson, Comm. Mgr.  
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Peggy Lipps, Senior Director  
Kit Needham, Senior Director  
Iris Simpson, Administrative Asst  
Robin Slade, Administrative Asst.  
Ben Stafford, Project Manager  
Keviar Warner, Administrative Asst.

# BITS

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

### BITS

805 15th Street, NW, Suite 600  
Washington, DC 20005  
Tel 202/289-4322  
Fax 202/289-0193  
bits@fsround.org  
www.bitsinfo.org