
BITS BULLETIN

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

SEPTEMBER 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

This issue of the *BITS Bulletin* reports on BITS' work of the past several months. It reflects our reports to the BITS and Roundtable Boards of Directors at the 2000 Fall Conference of The Financial Services Roundtable.

The BITS Board Meeting at Fall Conference will focus on our strategic and funding plans. A general session on September 14th will feature the opportunities in business-to-business e-commerce and BITS' recommendations in this high potential area. The BITS Technology Forum during the September 15th general session will highlight Aggregation Services, Wireless Technologies, and the Impact of the Electronic Signatures Law on Financial Institutions.

Since last September, four new critically important initiatives have emerged in addition to our ongoing deliverables. In response to the rapidly changing environment, we now have Working Groups in Aggregation Services, Wireless Technologies, Business Method Patents, and Service Providers/Outsourcers Business Practices. These are all described in detail in this issue.

More than 100 individuals participated in the BITS Security Forum in Santa Fe, NM on August 9th, including representatives of 20 technology providers, 38 financial institutions, 10 regulatory and government entities, along with other industry groups and presenters from Sandia and Los Alamos National Laboratories. Jim Blanchard, BITS Board Chairman, presided over the Forum as well as the Advisory Group meeting that followed.

On an annual basis, BITS manages the participation of more than 175 organizations in 35 Working Groups that meet in person or by conference call more than 800 times per year. These meetings bring together the right people to assess the impact and pose solutions to financial services industry challenges and opportunities. They create the industry's intellectual capital that gets incorporated into the strategies of individual institutions as well as the industry overall. In the process, BITS has built a "brand" that has meaning to our members, to regulators, to technology providers and to others in our industry. I am both pleased and proud to be a part of BITS' tradition—and, in Internet time, it is possible for a four-year-old organization to have a tradition.

BITS could not do what we do without the long hours and hard work of the members of our Advisory Group, BITS Council and BITS Working Groups. It is time to say thank you—again—to these dedicated executives and to the BITS staff.

Catherine A. Allen

BITS

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

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COMMENTS FROM THE CHAIRMAN OF THE BOARD

Last month I attended the BITS meetings in Santa Fe and was able to observe your BITS "brain trust" in action. I understood about BITS' role as a "SWAT Team" to address emerging e-commerce challenges, but being in the room all day, participating in these discussions, made me even more aware of what BITS does for our financial services industry.

BITS' Fraud Working Group and its Security and Risk Assessment (SRA) Steering Committee met separately and then co-hosted a Security Forum, bringing together some of the experts from the national laboratories at Los Alamos and Sandia, based in Albuquerque, NM. These groups also had the opportunity to tour the Los Alamos National Laboratory and be briefed by its distinguished staff.

It was impressive to hear one of the Security Forum participants, Greg Baer, Assistant Secretary of the US Department of Treasury, credit BITS' leadership: "These security issues need to be addressed by the whole financial services sector. 'Coopetition' is completely appropriate. That is why organizations like BITS are so important—helping the industry work on issues collectively where it is not enough for financial institutions to work individually. The BITS Lab and the FS-ISAC are two significant developments and great examples of private-public partnerships."

Following two days of security-related meetings, the BITS Advisory Group met in its regular monthly session, with a special presentation on Global e-Finance by Michael Lafferty, Chairman of the Lafferty Group, from the United Kingdom.

Lafferty reported to the Advisory Group on the "intelligence" from a group of selected global financial institutions. One memorable conclusion is that, "Although the pace of the New Economy is accelerating, the main response of 'traditional players' is to develop existing products on the Net. Very few appear to be addressing product innovation and organizational issues. Product and organizational innovation is coming out of new players diversifying from pure online to voice, as well as bricks and mortar."

At the Advisory Group meeting, I spoke about my vision for BITS. I can sum it up by saying that I believe BITS is as relevant and essential to our industry today as ever—or even more so in today's changing environment. I also reported that I have asked BITS to give particular emphasis to the Wireless, Aggregation, Business-to-Business and Business Method Patents initiatives. These are the critical, real-time issues that we CEOs are looking at from resource, investment and strategic perspectives. We will continue our successful efforts in the Fraud Reduction, Privacy and Security areas.

To my Roundtable colleagues, thank you for your support and I look forward to seeing you in Washington, DC.



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

A SPECIAL REPORT FROM SANTA FE

BITS Hosts August Security Forum and Working Groups in Santa Fe

Several BITS Working Groups met during the week of August 8th in Santa Fe, NM, described recently by *Wired* Magazine as “home to a growing, computer-powered industry known as informatics.” The theme was security issues, mainly cyber security, for both the Fraud Working Group and the Security and Risk Assessment (SRA) Steering Committee, including the BITS Lab Governance Committee. The BITS Advisory Group held its monthly meeting in Santa Fe on August 10th, with many of its members arriving early to join in the security-related meetings.



The proximity of the two national laboratories at Los Alamos and Albuquerque (Sandia Labs) enabled the BITS groups in Santa Fe to hear from some of the nation’s leading experts on a range of security issues and solutions. About 70 of the BITS-sponsored participants also visited the Los Alamos National Laboratory (LANL) on August 8th for a tour of the facility and briefings by LANL scientists. The briefings included “Why Hackers Hack,” “Money Laundering” and “Network Intrusion.”

LANL is one of 28 Department of Energy labs across the country. LANL’s current project scope includes document-imaging analysis, neural networks, statistical analysis for pattern recognition and anomaly detection, economic modeling, biology and nuclear physics. Sandia National Laboratory develops engineering and science-based solutions to national security problems. These range from enhancing the safety and reliability of critical infrastructures to defending against foreign military threats. Both labs apply their capabilities and findings to other federal agencies and private entities. Both seek partnerships with industry groups for collaboration.

The BITS Security Forum on August 9th brought together more than 100 participants, including government entities and technology companies, along with the financial services members of BITS Working Groups. James Blanchard, BITS Board Chairman, presided over the meeting. Blanchard is Chairman and CEO of Synovus Financial Corp. He and Catherine Allen, BITS CEO, acknowledged the efforts of BITS’ Security and Risk Assessment co-chairs Rhonda MacLean (Bank of America) and Peter Browne (First Union), along with Nancy Cloyd (Bank of America) who chairs the BITS Fraud Working Group. “Security and privacy form the foundation of e-commerce and payments,” Blanchard said, “and you keep us at the ‘cutting edge’ of the issues.” He continued, “The BITS Security Lab and related security initiatives as well as our BITS Fraud Reduction Program are valued and supported by the Roundtable CEOs.” Blanchard also announced that Hewlett-Packard Company and Sun Microsystems were the two newest Corporate Partners to join the BITS Financial Services Security Lab.

Steve Katz, of Citigroup, and Greg Baer, of the US Treasury Department, praised the financial services industry for its leadership in security issues and its role in critical infrastructure protection. Katz is chief information security officer at Citigroup, vice-chair of the BITS SRA Committee, and serves on the Board of Managers of the Financial Services Information Sharing and Analysis Center (FS-ISAC). Baer is Assistant Secretary for Financial Institutions at the Treasury Department.

A panel discussion on opportunities for commercialization of laboratory research highlighted the role of venture capital, protection of intellectual property, and the importance of the value proposition for all partners. The panel was moderated by John Davies, of Arcanvs, who helped found and operate the Center for Adaptive Systems Applications (CASA), a spin-off from the Los Alamos National Laboratory. Joining the discussion were: Jim Hall, the former Chief Information Officer for the State of New Mexico, now heading a technology company; representatives of two New Mexico venture capital companies that specialize in technology

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SPECIAL REPORT, CONTINUED

start-ups, and a Motorola executive who described specific projects resulting from an alliance between LANL and Motorola.

Scientists from Sandia National Labs presented on "Public Key Infrastructure," "Intrusion Detection" and "Infrastructure Interdependencies. Lessons learned and glimpses of the future were abundant, prompting Richard Feingold of Mellon to comment, "The theories presented here today give us an excellent perspective on what kinds of security tools and products may exist two years from now. That's a real benefit to our business planning."

BITS Advisory Group Hears A Global Perspective on E-Commerce

Two presentations to the BITS Advisory Group on August 10th emphasized global developments in e-commerce. The Office of the Comptroller of the Currency's (OCC) Cliff Wilke, Director, Bank Technology, and Hugh Kelly, Special Advisor for Global Banking, reported on the Basel Committee's Electronic Banking Initiatives and the implications for financial institutions worldwide. Michael Lafferty, Chairman of the Lafferty Group, based in the UK, presented a Global e-Finance Briefing.

The OCC representatives emphasized the need for collaboration with the banking community in implementing sound risk management industry practices for technology outsourcing; network and data security and other fast developing areas. They also observed that the borderless reach of the Internet and the increase in global alliances create international risk issues.

The Basel Committee's Electronic Banking Group (EBG) is comprised of banking regulators from the US, Canada, Japan and many European nations. The EBG continues to study the implications of new technology and emerging e-banking business models (like aggregation and B-to-B) on the banking industry. These developments, coupled with the increased entry from information services and technology firms into the financial sector, Kelly said, point to further globalization and commoditization of banking products and



BITS Board Chairman Jim Blanchard addresses the Advisory Group

services, with potentially significant strategic and competitive consequences for the industry and for commerce in general.

The Lafferty Group (www.lafferty.com) is an integrated global business intelligence and advisory organization providing newsletters, reports, conferences and executive education. The Group's five Councils function as global peer groups or think tanks. Members include banks, brokerages, insurance and consulting firms from around the world. Lafferty shared predictions and conclusions culled from the findings of the five Councils' meetings over the past year.

ANNOUNCEMENTS

The inaugural **Global InfoSec Summit** in Washington, DC on October 16-17 brings together industry and government leaders from around the globe to discuss critical issues of information security and infrastructure assurance. BITS is helping to sponsor the Summit, held by the World Information Technology and Services Alliance (WITSA) in partnership with the Information Technology Association of America (ITAA). Through BITS' involvement, members of The Financial Services Roundtable may attend the Summit at member rates—\$50 less than nonmembers. For more details contact Faith Boettger, BITS, at 202.289.4322, Faith@fsround.org or Doug Sabo, ITAA, at 703.284.5325, dsabo@itaa.org.

BAI's Conference on **Combating Check and Deposit Account Fraud** will be held November 12-15 in Orlando, Florida. A presentation by the BITS Fraud Reduction Working Group is included. For more information, call BAI, 1-800-224-9889, or www.bai.org/ccf2000.

Aggregation Services

Representatives from each of the Aggregation Subgroups met on August 3-4 to develop a unified plan for the Aggregation Initiative. More than 160 members are participating in the BITS Aggregation Services Working Group, representing financial services companies, insurance and securities companies, aggregation service providers, technology providers and regulators.

The Working Group crafted a short-term Action Plan to address the immediate need for minimizing risks associated with current aggregation services, particularly screen-scraping. Recommendations for short-term impact will be presented for action at the BITS Industry Forum on Aggregation Services scheduled for November 8, 2000 in Washington DC.

A longer-term priority is a Needs Assessment for the overall framework for aggregation and how it should operate in the future. Several members of the BITS Aggregation Working Group, along with BITS' CEO Catherine Allen, will speak at the *American Banker's* conference on "Account Aggregation" in Washington, DC on September 11-12. For more information contact Kit Needham or Peggy Lipps, BITS, at 202.289.4322, Kit@fsround.org, Peggy@fsround.org.

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

Wireless Technologies

Wireless commerce, also known as "m-commerce" for mobile commerce, is projected to be a major market over the next few years, with nearly 500 million existing wireless users worldwide and rapid technological advances to enable data transmission over wireless networks.

The BITS Wireless Technologies Working Group held its first meeting on August 22nd to prioritize deliverables and fully define the scope of the new initiative. The Working Group is divided into three subgroups focusing on wireless standards, security, and market development. About 30 participants heard key presentations on wireless experiences, along with an overview of wireless standards and networks.

The Wireless Working Group agreed to the following key goals for the near term:

Security Subgroup (Chair: Sam Phillips, Bank of America) – Review wireless security issues and publish results; catalog existing end-to-end security solutions, document vulnerabilities of each and publish results; work with the other subgroups to define key security criteria and develop RFIs; and work with the BITS Security Lab to develop appropriate criteria for wireless products and software.

Market Development Subgroup (Chair: Scott McGlaun, Synovus) – Build intellectual capital on wireless technologies through targeted interviews and research; conduct secondary market research to clarify market potential; provide a briefing to CEOs by McKinsey & Co. to increase understanding; and define key wireless business applications and develop business requirements for them through RFIs.

Standards Subgroup (Chair: Chris Hudel, First Union) – Catalog and evaluate existing and emerging standards and standard-setting bodies; work with the other two subgroups to define key business applications and requirements; and assist Market Development in developing RFIs. For more information or to get involved with the Wireless Working Group, contact Alice Cho, BITS, at 202.289.4322, Alice@fsround.org.

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

B-to-B E-Commerce Framework

The tremendous growth potential in business-to-business (B-to-B) e-commerce is driven primarily by the prospect of huge cost savings. With the Internet's ability to streamline internal purchasing processes, cost reduction in procurement services alone could exceed \$82 billion. Adoption rates may be slow in the financial industry, however, if fragmented and individual approaches collide with the need for interoperability and common rules for Internet-based business.

The B-to-B Working Group has identified two strategically important objectives: (1) Establish trust online through widespread and robust counterparty validation and authentication services, and (2) Build an infrastructure to facilitate efficient delivery of value-added financial services online.

The B-to-B Working Group's Authentication SWAT Team is working on ways to achieve both
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• • • • • **UPDATES ON BITS' INITIATIVES, CONTINUED** • • • • •

of these objectives. Its efforts to identify and catalog B-to-B authentication tools will help the development of a robust authentication technology platform to minimize risks to financial institutions and customers. Legal liability and responsibilities are not well defined among financial institutions and their customers using different authentication solutions. The Working Group is addressing the need for universal legal rules and business processes, along with interoperability and common data standards.

To fully realize these two objectives, interoperable B-to-B financial utilities may be needed to provide functions such as payments authorization and guarantees, along with credit information and risk assessment. The B-to-B Working Group is defining the scope of utility functions, identifying business requirements and determining the value for customers and the industry. For more information contact Alice Cho, BITS, at 202.289.4322, Alice@fsround.org.

*B-to-B E-Commerce Framework Working Group
Co-Chairs: Rodney Chard, Whitney National Bank
Peter McNally, Assurant/Fortis
Authentication SWAT Team Chair: Dan Schutzer,
Citigroup*

Service Providers/Outsourcers Business Practices

Increasingly, financial institutions are outsourcing information and transaction activities to third-party service providers. Concerns over control, privacy and security risks associated with outsourcing prompted the formation of the BITS Service Providers/Outsourcers Business Practices Working Group, under the auspices of the BITS Security and Risk Assessment Steering Committee. This initiative will evaluate strategic threats and opportunities related to third-party provider relationships and will provide tools to successfully implement and manage them. The Working Group is still accepting members. For more information, contact Faith Boettger, BITS, at 202.289.4322, Faith@fsround.org.

*Service Providers/Outsourcers Working Group
Co-Chairs: Sharon O'Bryan, ABN AMRO;
Viveca Ware, ICBA;
and Jim Dempster, M & I Data Services*

Business Method Patents

The number of patents granted annually by the US Patent and Trademark Office (PTO) has nearly doubled in the past ten years. The fastest growing segment is Internet-related and, in this segment, financial services account for the greatest number of patent requests. A significant issue is that the PTO, lacking adequate experience and resources in this area, may be granting patents for business methods that have been used for years within the financial services industry—raising potentially costly business and litigation issues. BITS established a Working Group to address these concerns.

The PTO is aware of industry concerns and is meeting with industry groups to address them. A repository of "prior art," Internet-accessible, is being developed to fill a massive void in this area. BITS will host an Executive Briefing on October 18 in Boston exclusively for senior executives and in-house counsel of BITS' members. The Briefing will feature information and practical responses to this issue. For more information, contact Cheryl Charles, BITS, at 202.289.4322, Cheryl@fsround.org.

*Business Method Patents
Co-Chairs: Wayne Sams, First Union;
John Burke, Foley, Hoag & Eliot*

Security and Risk Assessment (SRA)

The SRA has added the following areas of work to its current priorities.

- Development of a security cost model to assist members in budget planning and possible benchmarking related to information protection spending;
- Smart card technologies and their relevance to secure access and authentication;
- Assessment and response to proposed interagency security regulations;
- Review of implications of E-Sign, the Electronic Signatures Act;
- Support for the National Cybercitizenship Education Program co-sponsored by ITAA and the Department of Justice; and
- Creation of a Service Providers/Outsourcers Working Group.

The BITS Financial Services Security Lab is gaining momentum. Three Corporate Partners (eFunds, Hewlett-Packard and Sun Microsystems) and one Member (Arcot) have

joined the BITS Lab and begun product testing. Criteria development covering 80% of the e-commerce marketplace is nearing completion. Other developments:

- Financial institutions are actively requesting the *BITS Tested* mark in their procurement policies;
- Regulators and other policymakers are commending the Lab's contributions;
- Security breaches continue to raise media coverage and public attention.

For more information contact Faith Boettger or Peggy Lipps, BITS, at 202.289.4322, Faith@fsround.org, Peggy@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

Consumer Privacy and Information Use

TNS Intersearch has been selected as the vendor to conduct the BITS-BAI research project on consumers' financial services behaviors—and the extent to which, if at all, concerns about privacy and security of information affect their behavior. TNS Intersearch is part of Taylor Nelson Sofres, the world's fourth largest marketing information company.

The study will be conducted annually for three years. The early results will help member institutions do a better job of crafting mandatory disclosure statements and other communications. The findings of BITS' privacy-related research are incorporated into all relevant BITS initiatives.

For more information contact Cheryl Charles, BITS, at 202.289.4322, Cheryl@fsround.org.

Research and Communications Steering Committee

Chair: Gary Roboff, Chase Manhattan Bank

Fraud Reduction Program

This initiative continues to yield financial and educational benefits for the participants. Institutions participating in the BITS Fraud Reduction Program have seen an approximate 31.43% reduction in annual fraud growth from 17.5% to 11.5%. Members now participate in eight Fraud Reduction subgroups, with Debit Card and Internet Fraud recently added.

Retailer Forums are being held to forge a better working relationship between the financial services industry and this important customer group. The retail industry experiences an estimated \$10 billion in check fraud losses annually, so it is keenly interested in partnering with financial institutions to combat fraud. The BITS Fraud Working Group (FWG) held two Retailer Forums, in September 1999 and May 2000. A third one is planned.

The FWG wrote and distributed two papers to BITS members: one on risk implications in point-of-sale truncation and another on shared databases. For more information contact Alice Cho, BITS, at 202.289.4322, Alice@fsround.org.

Fraud Working Group

Chair: Nancy Cloyd, Bank of America

Electronification of Checks

The Phase II Check Safekeeping Survey was completed, with results to be distributed to participating institutions. An Executive Summary will be available upon request to all Roundtable members. The financial and strategic implications to the industry are significant if consumers are motivated to adopt electronification of checks in some form. The value of a National Check Safekeeping Educational Campaign is being assessed, along with requirements to implement. For more information contact Alice Cho, BITS, at 202.289.4322, Alice@fsround.org.

Check Safekeeping Working Group

Chair: Jerry Chambers, Bank of America

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.
- Teresa Lindsey, Senior Director
- 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

BITS PROFILE

Peter S. Browne is Senior Vice President and Division Head of Information Security for First Union Corporation. He is responsible for information security policy, standards and services; disaster recovery and security administration. As an early leader in information and network security, he has developed many of the industry standard concepts relating to network security, encryption, system security management and risk assessment. He co-chairs the BITS Security and Risk Assessment (SRA) Steering Committee.

Rhonda E. MacLean is Senior Vice President and Director of Information Protection at Bank of America. She provides enterprise-wide leadership for information protection policy/procedures, risk management, security technology implementation, and business continuity and recovery. She has more than 20 years experience in the data processing industry, with ten years primarily in information protection. She served on the President's Commission on Critical Infrastructure Protection. She co-chairs the BITS Security and Risk Assessment (SRA) Steering Committee.

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: You are widely respected as one of the pioneers in information and network security. What do you see as the most significant factors affecting financial services security?

PSB: Financial institutions have always been in a position of trust and security has always been a core component of their technology infrastructure. However, the rush to alternative channels—online delivery through the Internet as well as the telephone networks—has expanded security requirements. New technologies of protection are now common, for example, digital certificates and intrusion-detection solutions. Three years ago, it was rare to find an institution that employed ethical “hackers” to try to break into their own systems. Today most of us employ this type of validation service. Delivery technology is expanding dramatically and the environment is more complex. The challenge is to make sure that security technology keeps up with delivery technology. The value of BITS has been to bring together the information security people, their technology managers and their business leaders in a partnership dialogue, focusing on best practices for protection of customer data and privacy.



Peter Browne
First Union

BITS' newest security initiatives relate to the challenges I just described. The trend is toward more technology being provided by third parties to enable financial institutions to maintain current technology. The challenge is ensuring that the primary institution's security policies and standards are maintained by the third-party service provider so that customers are adequately protected. The new Outsourcers Working Group will address these issues, along with compliance requirements.

The Security Cost Model Study will address another part of these challenges. Given the rapid growth of distributed and online technologies, is security spending keeping up? The industry norm is estimated at 2% to 4% of the overall information technology (IT) budget spent on security. Many

experts are saying that is not enough. We need to determine the appropriate norms. The SRA will work with industry analysts to benchmark security spending in the financial industry.

BITS: How is the BITS Financial Services Security Lab helping to make online financial services more secure?

REM: Trust is critical to a financial institution's relationship with its customers. We are living in a rapidly changing world that requires us to constantly evaluate our ability to protect information. The BITS Security Lab is helping us do that. By identifying requirements to our vendors, building standards and validating through third-party testing to minimal acceptance standards, the Lab is providing a reliable process for our industry. I think vendors and industry members alike have found the BITS Security Lab beneficial. Over time, this process can only improve online security products and will ensure standard products that are affordable, easy to implement and consistent with our industry's and customers' security needs.



Rhonda MacLean
Bank of America

BITS: BITS endorsed the National Cybercitizenship Campaign, a joint effort of the Department of Justice and the Information Technology Association of America (ITAA). What is the value of this campaign?

REM: The Cybercitizenship Partnership addresses one of the critical issues of cyber security: teaching cyber ethics. We are looking to work with other industries and government to tackle information security issues. At Bank of America, we were in the early stages of developing such an educational program when we learned of the ITAA/DOJ initiative. Teaching cyber ethics is important to children and adults alike. By offering cybercitizenship programs in our schools, we hope to reduce unethical behavior by building advocates for protecting information in the workplace and at home.