
BITS BULLETIN

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

MAY 2001

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
- 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

Consumers are in the driver's seat. In a world where information is abundant, the challenge is to make sense of it. Consumers want their financial information to be organized, available when they want it, and easy to access. They want convenience and personal attention. Most of all, they want to be sure that their assets are protected. They expect that financial services will be provided in safe, sound, private and secure ways. Put all this in the context of what is now possible online through "aggregation services," and that is the background for the BITS Aggregation Services Initiative.

We are now pleased to announce major results. The *BITS Voluntary Guidelines for Aggregation Services* were made public after their endorsement by the BITS and FSR Boards of Directors, as well as the Roundtable's Consumer Issues Committee. There has been significant industry and media interest in the *Guidelines*. First Union has served as a thought leader for BITS' work on aggregation services. Gayle Wellborn, First Union, has done an outstanding job as Chair of the Working Group. We also commend the subgroup chairs: Dan Schutzer, Citigroup; Roger Callahan, Bank of America; Gary Roboff, recently retired from Chase.com and now Senior Consultant, BITS; Hilary Blackburn, Summit Bank; and John Lee, Wells Fargo & Company. BITS' Outside Counsel, John Burke of Foley Hoag LLP, also provided important support. Their leadership, combined with the dedication of the more than 200 people in 80 organizations who participated in the process, has made this achievement possible.

In another arena where early intervention can play a major role in preserving safety and soundness, the BITS Working Group on IT Service Providers is developing a Framework for addressing issues that arise when a financial institution hires outside parties to provide services. Just as with the process used to create agreement in support of the *BITS Voluntary Guidelines for Aggregation Services*, this effort will establish an important set of critical guidelines. This was one of the topics featured at the Roundtable's Annual Meeting held April 5-7.

Trust continues to be the most important attribute of the financial services industry. The BITS BAI Consumer Privacy Research Project shows that consumers trust traditional financial services companies more than any other organizations to provide secure online financial transactions.

Thanks again to all of you who contribute so energetically, thoughtfully and generously to our efforts. A special thanks to the BITS Staff, who are dedicated, professional and effective in accomplishing BITS' goals.

Catherine A. Allen
CEO, BITS



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Nancy Cloyd, Bank of America, *Fraud*
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Dan Schutzer, Citigroup, *FSTC Liaison*

COMMENTS FROM THE CHAIRMAN OF THE BOARD.

After completing one year as Chairman of the BITS Board of Directors, I am not overstating it to say that this is one of the most fulfilling and exciting roles I have experienced in my professional career. BITS helps the financial services industry to identify the things we need to know to successfully navigate the changing business environment. BITS' efforts are both strategic and tactical. Most importantly, BITS delivers results where we need them and where we, as individual financial institutions, cannot get these kinds of results on our own. At the recent Annual Meeting of The Financial Services Roundtable, I highlighted for my peers some of the recent BITS accomplishments. Here are just a few of those accomplishments.

BITS Voluntary Guidelines for Aggregation Services—You will read about this milestone in this issue of the *BITS Bulletin*. One year ago, some of the technologies and practices being used to deliver online financial aggregation services posed huge risks to consumers and to financial institutions. Now, through BITS' efforts, we have established the rules of the game that will allow these services to grow in safe, sound, private and secure ways.

Fraud Reduction Program—Participants in this program have seen a 9.6% decline in check fraud losses in 2000 compared with an 11.5% increase in 1999. The more institutions that participate, the better the results.

Security Initiatives—BITS is consistently out front in identifying critical security issues and ways to address them. The criteria development process for the BITS Financial Services Security Lab has helped financial institutions refine their own security requirements and testing processes. By sharing known security breaches and solutions with 44 financial institutions, up from 21 a year ago, through the Financial Services Information Sharing and Analysis Center (FS/ISAC), the security of the industry's infrastructure has been enhanced.

Consumer Privacy Research—As a result of interviewing 5000 consumers, we now know how concerns about privacy and security of personal information are driving consumers' behaviors when conducting financial transactions.

Much more is underway, reflected in this issue of the *BITS Bulletin*. The key to getting the benefit of these initiatives is participation. If you are a member institution of BITS and The Financial Services Roundtable, contact the BITS staff person responsible for the project you are interested in and get aboard. If you are not part of a member institution, you may participate in those initiatives where strong cross-sector involvement is needed.

The BITS Board of Directors voted to expand the membership of BITS to include organizations such as global financial institutions, the card associations, financial services consortia and associations. These new members will be eligible to participate in the BITS Council, Steering Committees and Working Groups. The interest in BITS is high. We will keep you informed about new members in future issues of the *BITS Bulletin*.

BITS has had a good year. We feel confident we are addressing the right issues, at the right time, in the right way. Thank you for your interest and involvement.

Sincerely yours,

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

BITS AGGREGATION SERVICES INITIATIVE: COLLABORATION FOR CONSUMER PROTECTION

The BITS Aggregation Services Working Group has achieved a major breakthrough for the delivery of online financial services. Financial aggregation is the process of gathering content from multiple sources and consolidating that information at a single website. *The BITS Voluntary Guidelines for Aggregation Services* establish a framework for accelerating the adoption of new financial aggregation services in ways that are safe, sound, private and secure.

“This is the first collective effort in the industry by all the players to recognize the impact of aggregation technology and to ensure a best-practices approach to developing and delivering aggregation services to consumers. We are pleased to be working with the BITS members to set the bar high in the industry for both business practices and technological advancement. We believe these *BITS Voluntary Guidelines for Aggregation Services* will further accelerate the rapidly-growing adoption of aggregation services and ensure that all aggregation technologies meet the highest standards for safeguarding data security and consumer privacy.”

Sukhinder Singh
Vice President and Co-Founder, Yodlee

More than 200 individuals from approximately 80 organizations, including financial services firms, banking regulators, and third-party aggregators and technology providers contributed to the development of these *BITS Voluntary Guidelines for Aggregation Services*. This cooperative effort is a model. The process was intense, the results impressive.

The *BITS Voluntary Guidelines* address key issues related to the security and privacy of consumer account information, business practices, the legal and regulatory environment, and consumer education. They serve as a set of best practices.

On April 7, the BITS and FSR Boards of Directors and the Roundtable’s Consumer Issues Committee unanimously endorsed the *BITS Voluntary Guidelines*. Implementation of the *Guidelines* serves the interests of consumers and protects the reputation of the financial services industry and its partners.

Copies are available online at www.bitsinfo.org, under Publications.

This BITS initiative will now focus on data-feed and authentication technologies. Data-feed technologies involve the direct transmission of customer account information, rather than having an outside party “scrape” information from the screen of the account-holding institution.

“Consumers want the benefits that new technologies can provide. Leaders in the financial services industry want to bring these benefits to consumers while making sure that these services are provided with the kinds of safeguards consumers count on. BITS’ leadership in this area is bringing real results to consumers. We commend and congratulate the efforts of all involved.”

*Gene Miller, President and CEO of Comerica Inc. and
Chairman of the Board of Directors,
The Financial Services Roundtable*

Authentication technologies are designed to ensure that the party receiving the account information is correctly identified. A number of concerns persist. Chief among these is the need to find and support the adoption of the best authentication techniques and to establish open and interoperable approaches to data-feed transmissions.

The Working Group’s current objectives center on the development of a more robust aggregation infrastructure and will address these related issues: authorization and de-authorization of parties seeking access, validation and tracing of transaction requests, audit and non-repudiation of transactions, corrections processes, an efficient data-feed model, liability resolution, and appropriate business rules. Attention to consumer education, the business proposition for aggregation services, and the legal and regulatory environment also remain central to the Working Group’s objectives.

For more information, contact Leslie Mitchell or Gary Roboff, BITS, 202.289.4322, Leslie@fsround.org, Garyrob1@aol.com.

*Aggregation Services Working Group
Chair: Gayle Wellborn, First Union*

BITS
FINANCIAL SERVICES
ROUNDTABLE

SPECIAL REPORT ON ANNUAL MEETING

BITS contributed in many ways to The Financial Services Roundtable's Annual Meeting in Palm Beach, April 5-7, 2001. The two-hour BITS Technology Forum showcased some of the most challenging issues facing the industry—privacy and security of consumer information, relationships with strategic partners such as third-party service providers, and the risks and opportunities associated with business method patents. BITS also sponsored keynote addresses focused on business strategy and on customer advocacy.

Customer Service and Trust

Focusing on customers as a foundation for innovative business strategies, and maintaining customer trust tied to privacy and security of information, were major themes at Annual Meeting. Four speakers addressed these topics in distinctive ways.

Dawn Lepore, Vice Chairman and Chief Information Officer, Charles Schwab & Co., is known as a visionary in the online brokerage world. In her talk, she provided a top-10 list of customers' expectations for e-commerce, guideposts for how to leverage the strength of e-business. She said, "Listen to the demanding customers and put them in the center of the business plan . . . The best businesses know how to listen, and then let the technology follow."

Lepore's list, abbreviated:

- (1) *Don't ever close.* Give your customers the services they want "around the clock." If you are the customer trying to access your account when the system is down, the whole company might as well be on vacation.
- (2) *Give me what I need, even if you don't have it.* This way of thinking will lead you into new partnerships and alliances so that your customers can come to you for everything they need.
- (3) *Make it fast; I'm in a hurry.* Most customers at home access the website with dial-up services that don't work well with complex graphics—so simple solutions are sometimes faster than the latest innovation.

- (4) *What does it matter where I am?* Increasingly, this means "anywhere in the world is okay."
- (5) *That's not what your other office said.* Consumers want to be able to use all available channels, and get consistent answers.
- (6) *How long is it going to take me to learn this?* Design products that are easy for customers, and interpersonal enough to put them at ease.
- (7) *Give me the big picture.* Technology is making this kind of "aggregation" possible. The big picture includes all financial accounts and services, not just those that any one institution might offer.
- (8) *No unnecessary steps, please.* Whenever there is an opportunity to use a standard format or decrease time "on hold," do it.
- (9) *Let me decide how I want to contact you.* This is vital to maintaining a flexible and responsive e-business.
- (10) *Don't make me feel stupid.* Technology provides an overload of information and choices. Companies shrewd enough to use the power of their technology to make smarter customers will end up with the leading e-business model.

Philip Evans, author and Senior Vice President with the Boston Consulting Group, explained how previous ways of doing business are being "blown to bits" by the information revolution. Evans' message to Roundtable members was that strategy in the current chaotic environment requires a new type of attention to customer needs. He said, "A fundamental power shift is taking place. Long-term strategies have to be based on whose interests we are serving. The way to compete is to take the customer's side." Evans sees the financial services industry as well positioned to provide consumers with the power of aggregation services (a theme of this issue of the *BITS Bulletin*). Comprehensiveness, trust and richness of knowledge are industry assets that can be leveraged.

King Milling, President of Whitney National Bank, made a powerful presentation about his encounter with cyber-crime. Cyber-world products have opened the door to a significant number of cases of identity theft and transaction fraud. Milling worries about dot.com financial institutions allowing online account-opening and transactions without adequate knowledge of their new customers' identity. The challenge, Milling said, is to find a balance between knowing enough about one's customer to provide protection and, at the same time, preserving the privacy that is vital to trusted transactions. In the age of online transactions, maintaining customer and institutional trust, while establishing a new form of "know your customer," is essential.

Marty McGuinn, Chairman and CEO of Mellon Financial Corp., briefed his colleagues on the major business implications from the landmark BITS BAI Consumer Privacy Research Project. Some highlights from this research are:

- Those evening marketing calls are not making friends of the general public. The calls confuse people too, because consumers wonder how the information was obtained to make the call. Tie this to the public's skepticism about the benefits to them when financial services companies use information about them to personalize products and services, and there is a major challenge for the industry to make the case about the real value of information use.
- We can learn from "early adopters." The most active Internet users are doing much more than looking for information online; they are conducting financial transactions of many different kinds. They are also aware of risks to their security and privacy, so are more likely than any other consumers to be proactive when it comes to installing antivirus software and firewalls. These leading-edge consumers evidence a variety of characteristics that are important indicators of where the general consumer public may be heading. This has major implications for the industry's development of products and services.
- When it comes to who can best provide private and secure online transactions, consumers overwhelmingly choose traditional financial institutions. The most active Internet

users have the most positive feelings about the trustworthiness of traditional financial institutions to make sure that online transactions are safe, sound, private and secure. In this case, familiarity and experience breed greater comfort.

- Because of growing concerns about potential fraud and identity theft, it is critically important for the financial services industry to educate both employees and customers about ways to take precautions. Employees need to be able to answer questions and assist customers when, and if, problems arise.

Patent Trends

Patent and trademark protections are pillars of the US economy. However, many business practices that are familiar in the physical world are being introduced to the Internet environment. This can create difficult issues, particularly if patents are issued for widely used business methods, giving rise to a flurry of patent-infringement claims. William H. McDavid, General Counsel for J.P. Morgan Chase & Co., described this current environment. McDavid was followed by Wayne Sams, recently retired from First Union and Founding Co-Chair of the BITS Business Method Patents Working Group, who described the Working Group's agenda. Sams highlighted the importance of assessing business method patent issues when contracting with third parties for providing services. John Burke, Foley Hoag LLP and Outside Counsel to BITS, moderated this session and emphasized the opportunities tied to being proactive in assessing an institution's intellectual capital.

Outsourcing Trends

Christopher Campbell, Gartner Group, highlighted new risks and opportunities in outsourcer relationships. He recommended elements of an outsourcing strategy, stressing that traditional business operational skills are not sufficient. Sharon O'Bryan, ABN AMRO, reinforced the fact that the Board of Directors and senior management of financial institutions are responsible for effective oversight and management of outsourced functions.

· **UPDATE ON BITS' INITIATIVES** ······

· **Fraud Reduction Program**

· The BITS Retailer Forum, hosted by Wells
· Fargo & Company, was held on April 30 and
· May 1 in San Antonio, Texas. The Forum
· featured key emerging topics, such as fraud
· prevention methods and technologies,
· authentication, a review of Uniform Com-
· mercial Code rights and responsibilities,
· check electrification, and an evaluation of
· the feasibility of data sharing among financial
· institutions, law enforcement agencies, and
· retailers.

· Following the Forum, the Fraud Reduction
· Steering Committee met May 1-2 to con-
· sider new regulations as well as technologies
· for combating fraud, plus a proposal for a
· BITS/FSTC project to evaluate tools for
· fraud detection in a truncated environment.
· For more information, contact Robin Slade,
· BITS, 505.466.6434, Robin@fsround.org.

· *Fraud Reduction Steering Committee*
· *Chair: Nancy Cloyd, Bank of America*

· **Business Method Patents**

· The BITS Business Method Patents Working
· Group continues to work closely with the US
· Patent and Trademark Office in order to
· improve the databases of information, i.e.,
· "prior art," available to examiners as they
· review patent applications. The Working
· Group also provides its members with a
· forum to discuss institutional strategies for
· addressing intellectual capital issues such as
· those surrounding business method patents
· and internal audits.

· Participation in this Working Group is
· reserved for personnel from BITS and
· Roundtable member institutions. Conference
· calls and in-person meetings are held as
· needed.

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

· *Business Method Patents Working Group*
· *Co-Chairs: Mark Kessler, J.P. Morgan Chase & Co.*
· *David Schreiber, Citigroup, Inc.*

· **IT Service Providers**

The IT Service Provider Working Group will complete Version 1.0 of the *Proposed Framework for Managing IT Service Provider Relationships* at the end of May for discussion at the June 13th Industry Forum in Chicago.

The Forum will include a regulatory update and an explanation of how the *Framework* addresses the key issues faced by the financial services industry in outsourcing. Attendees will include representatives from the financial services industry, financial services regulators, outsourcers and service providers, and relevant financial services associations. For more information, contact Faith Boettger, BITS, 202.289.4322, Faith@fsround.org.

IT Service Provider Working Group
Co-Chairs: Sharon O'Bryan, ABN AMRO
Jim Dempster, Metavante
Viveca Ware, ICBA

· **EA/ECP/Check Safekeeping**

A Steering Committee on EA/ECP has been formed. John Beran, Comerica, is Chair; members include Austin Adams, BANK ONE; Jerry McQuaid, FleetBoston; Mitch Christensen, Wells Fargo & Company; Charles Siegmann, Mercantile Bancshares; and Woody Tyner, BB&T. The Steering Committee will oversee industry organizations in the formation of a National Check Safekeeping Campaign and will interact with federal and regulatory bodies on electrification. For more information, contact Robin Slade, BITS, 505.466.6434, Robin@fsround.org.

EA/ECP Working Group
Chair: John Beran, Comerica
Check Safekeeping Working Group
Chair: Jerry Chambers, Bank of America

· **Consumer Privacy and Information Use**

The BITS Privacy Working Group, in cooperation with BAI, is continuing to analyze the research results from the BITS BAI Consumer Privacy Research Project. Plans for the second year of this baseline study of 5000 consumers will be completed by Fall 2001. For more information, contact Cheryl Charles, BITS, 202.289.4322, Cheryl@fsround.org.

Privacy Working Group
Interim Co-Chairs: Enid Miller, Mellon
Mary Jones, FleetBoston

BITS' INITIATIVES, CONTINUED

Wireless Technologies

Responses to the BITS Mobile Financial Services Requests for Information (RFIs) continue to arrive. The RFIs were distributed to approximately 70 companies in late December 2000.

BITS will hold two Wireless Technologies Forums, one on May 24 in Washington DC and the other on August 8 in Santa Fe, New Mexico, to discuss directly with the targeted companies the business requirements in the RFIs and their responses. Only BITS member companies and the companies that responded to the RFI will be invited to the first Forum. Invitations to the second Forum will be expanded to include technology vendors, government representatives and regulators. This outreach demonstrates a decision to broaden the membership of the BITS Wireless Technologies Working Group by the summer of 2001. For more information or to get involved with the Wireless Technologies Working Group, contact Jennifer Dickerson, BITS, 202.289.4322, JennD@fsround.org.

*Wireless Technologies Working Group
Chair: Kathy DeWit, Wells Fargo & Company*

Security and Risk Assessment (SRA)

In March, the SRA Working Group participated in the Partnership for Critical Infrastructure annual meeting and in the National Information Assurance Partnership (NIAP) National Summit.

The next SRA meeting, hosted by Harris Bank in Chicago May 8-9, includes a special session for member companies of the BITS Financial Services Security Lab, information sharing on "detection and response" activities, and more case-study presentations in preparation for Section 501B guidelines from the Gramm-Leach-Bliley Act.

The BITS Lab holds workshops in late April and early May for two BITS Working Groups: Monitoring and Intrusion Detection Systems, and Network Security. These workshops include financial institution representatives, technology providers, and government agencies collaborating on security criteria for products tested at the BITS Lab. Both the Monitoring and Intrusion Detection Systems profile and the Application Security profile will be posted for public comment on the BITS Lab website at www.predictive.com/bitslab beginning in May. All feedback on the profile documents is welcome. For more information, contact Laura Lundin or Peggy Lipps, BITS, 202.289.4322, Laura@fsround.org, Peggy@fsround.org.

*SRA Steering Committee Chair: Rhonda MacLean, Bank of America
Lab Governance Committee Chair: Bill Sentenac, Wells Fargo & Company*

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Heather Wyson, Administrative Assistant

New Working Group on the Role of Insurance in E-Commerce

BITS is forming a new Working Group to track the development of new forms of insurance in the e-commerce environment, to engage participants in discussions, and to drive awareness of the issues within BITS member organizations. Insurance has a role both as a solution within an overall risk management strategy and as a new business opportunity for financial services companies. Challenges include identifying new kinds of risk and then quantifying those risks.

The first meeting will be held in Washington DC on May 22. All interested BITS and Roundtable members are encouraged to participate. For additional information, or to recommend others who may be interested in participating, contact Laura Lundin, BITS, 202.289.4322, Laura@fsround.org.

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Gayle Wellborn is Senior Vice President, Customer Advocacy, First Union Corporation. Gayle serves as the Chair of the BITS Aggregation Services Working Group. First Union has been a generous and effective thought leader for the financial services industry with respect to addressing issues related to “screen scraping” and aggregation services. Gayle’s personal leadership has been a significant contributor to the successful development of the *BITS Voluntary Guidelines for Aggregation Services*.

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: There is a misconception that banks initially opposed aggregation services. Why?

Wellborn: Banks did not oppose aggregation services but identified several concerns associated with the “screen scraping” method used to deliver the services. Banks and other financial institutions were deeply concerned about the potential risks to consumers, and to the industry, if aggregation services were not provided in safe, sound and secure ways. Banks recognized that a consumer’s username and password were being divulged to third parties and that those third parties were not (are not) being held to the same legal and regulatory standards as financial institutions. Consumers were not aware of the risks involved and often mistakenly assumed that the financial institution was in control or had authorized the aggregation activity.

BITS: Why are financial institutions interested in offering aggregation services?

Wellborn: First, consumers want this service. It is a valuable and powerful tool that can help consumers manage their financial affairs more effectively. It brings the convenience of consolidated information and the power to optimize financial planning. But, early on, there were too many risks. When BITS brought the financial institutions, aggregation service providers and regulators to the table, all the key players were able to discuss and resolve issues. The process BITS used is a model for gaining consensus around ground rules that, in the end, serve the consumer. The result is the *BITS Voluntary Guidelines for Aggregation Services*. These *Guidelines* establish the framework for safe, sound, private and secure aggregation services for consumers.

BITS: What will it mean to “adopt the *BITS Voluntary Guidelines*”?

Wellborn: The word is “voluntary.” At the same time, the process to develop these *Guidelines* was intense and highly participatory. As such, this strong set of guidelines has widespread cross-industry support. We anticipate that the *BITS Voluntary Guidelines for Aggregation Services*, a compilation of best business practices, will become a *de facto* standard.

BITS: What risks are associated with the screen scraping model and what are the solutions?

Wellborn: The first concern is security, which involves a host of related risks. The *BITS Voluntary Guidelines* deal with threats to the security of the customer’s authentication and account information by suggesting baseline measures that all parties to aggregation should take with respect to transmitting and storing username/password and account information.

BITS: Will future technology enable companies to offer more secure and accurate aggregation services?

Wellborn: Yes, primarily by creating a direct line (data feed connection) between financial institutions and aggregators.



Gayle Wellborn

BITS: How will these *BITS Voluntary Guidelines* enable financial institutions to educate their customers?

Wellborn: The *BITS Voluntary Guidelines* provide rich content for financial institutions and aggregation service providers to educate customers. This is an opportunity and a responsibility. Through BITS’ research, it is clear that consumers are willing to take some actions themselves to help protect the security and privacy of their information.

BITS: What does the future of aggregation look like?

Wellborn: Aggregation services will grow increasingly robust—providing consumers with more tools for financial management. It will include “sweeps,” intelligent agents, analytical tools, and the ability to transfer funds across multiple institutions. Other likely services will include bill payment and wireless access to consumer data.