
BITS BULLETIN

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

DECEMBER 2002

The *BITS Bulletin* is designed to keep the membership of The Financial Services Roundtable fully informed about the activities of BITS and rapidly evolving developments in emerging technologies, electronic commerce and payments.

Don't miss the
BITS
Operational Risk Forum
February 12, 2003
in Washington, D.C.

For more information
contact Laura Lundin,
laura@fsround.org

BITS MANDATE

- Facilitate the growth of electronic commerce
- Facilitate development of superior, market-driven technologies
- Maintain the financial services industry's role at the heart of the payments system
- Sustain consumer confidence and trust by ensuring the safety, soundness, privacy and security of financial transactions
- Leverage resources and infrastructure across the industry

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

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LETTER FROM THE CEO

• One of the things BITS does best is to bring industry leaders together to learn from each other and develop solutions to problems we all face. The BITS/American Banker Financial Services Outsourcing Conference on November 14 and 15 was no exception. We had excellent panel discussions in which member company executives and high-tech representatives hashed out issues, helping everyone gain from their valuable experiences.

• BITS Forums are also an opportunity to learn from government leaders. Richard Clarke, Special Advisor to the President for Cyberspace Security, spoke on day two of the meetings. He told the crowd that he expects outsourcing to continue to grow in financial services, and that security concerns need to be foremost in our minds, regardless of whether a product or service is outsourced. He said it is clear that al Qaeda is targeting the financial services industry, and it is critical that our leaders make it a priority to identify and address vulnerabilities. Mr. Clarke praised BITS' work, citing BITS as a model for how industry and government can work together. Of course, our progress wouldn't be possible without the help of leaders like him.

• Collaboration with government is essential—and is a great strength of BITS. The BITS Telecommunications Working Group is another excellent example of an initiative in which private/public partnerships are essential. Since 9/11, BITS has been a leading voice in calling attention to the critical vulnerabilities in telecommunications networks. We're bringing government agencies together with representatives of the financial services and telecommunications industries to discuss these vulnerabilities and develop solutions.

• Another advance in business continuity efforts was the November passage of the Terrorism Insurance bill. Under that legislation, the government covers up to \$90 billion annually in insurance claims resulting from future terrorist attacks. BITS' sister organization, The Financial Services Roundtable, played a major role in the legislation's success.

• While BITS and Roundtable members have made great progress in ensuring that, if there is another attack, the nation's financial services infrastructure is secure and resilient, there is more work to be done in this area—as well as in BITS' other initiatives like payments and fraud reduction. With the support and participation of our members, we've been able to make unprecedented accomplishments in 2002. I have no doubt that 2003 will be another landmark year.

• Best wishes for a safe and happy holiday season.

Catherine A. Allen

CEO, BITS

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COMMENTS FROM THE CHAIRMAN OF THE BOARD.

This is an important time for our country. Under the President's leadership, our government is putting forth new and innovative programs designed to make this nation safer than it has ever been before. As an industry that represents the U.S. economy—and one that has been told that it is a target for terrorists—these new programs require our utmost attention.

The new Department of Homeland Security is one of these critical new initiatives. This ambitious new legislation provides for the combination of 22 government agencies, which will result in coordinating the efforts of our most critical national security efforts. The Department's mission will be to prevent terrorist attacks in the U.S., reduce the nation's vulnerability to terrorism, and minimize the damage caused by any attacks that do occur. What could be more important?

As you've no doubt heard, Governor Tom Ridge will be leading the new department. I personally know that Governor Ridge is a leader in the truest sense of the word. He is well aware of the issues we face as an industry as we strive to make our individual companies and our financial system as a whole as safe and secure as possible for the American people. Governor Ridge has worked with BITS in our crisis management initiative, demonstrating that he understands the importance of public-private partnerships in achieving our respective goals. With Governor Ridge at the helm, we know this will be a top priority.

Recently, I was invited to join government and business leaders—including Governor Ridge—to discuss how American companies can compete in a safer and more secure environment as we all work to defend the freedom and values embraced by our nation. With speakers including Commerce Secretary Donald Evans and chief executives of seven Fortune 500 companies, the National Symposium on Competitiveness and Security brought together business, government, university and labor leaders. There, I had the opportunity to speak with C. Michael Armstrong, Chairman and CEO of AT&T Corporation, about our industry's concerns about telecommunications vulnerabilities. The two of us were able to sit down together and discuss the critical issues that are the focus of the BITS Telecommunications Working Group.

While there, I also took part in a panel discussing how we can further corporate America's efforts to address security-related issues. Based on that discussion, I have even more confidence that the financial services industry, other sectors and the government are working together to provide consumers and businesses with a safe, sound and more secure environment.

Clearly, our industry faces formidable challenges. Equally clear, though, is that we as an industry and as a nation are addressing these issues head-on. None of this could be possible without your leadership. Thank you for your participation.



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

FOCUS: THE DEPARTMENT OF HOMELAND SECURITY.

The creation of the new Department of Homeland Security marks the largest U.S. government reorganization in more than 50 years. This cabinet-level agency, led by Governor Tom Ridge, is a key part of the President's national strategy to ensure the security of our nation. The new structure will benefit the financial services industry and our efforts to defend against and prepare for terrorist attacks—both cyber and physical—in a number of ways. Perhaps the most fundamental to the success of our industry's efforts is the legislation's commitment to streamlining the process through which public and private sectors work together to strengthen and defend our critical infrastructure.

The Department's Mission

The Department's mission is to prevent terrorist attacks within the U.S., reduce the nation's vulnerability to terrorism, and minimize the damage caused by any attacks. It will operate through four divisions: Border and Transportation Security; Emergency Preparedness and Response; Chemical, Biological, Radiological and Nuclear Countermeasures; and Information Analysis and Infrastructure Protection. Though each focuses on a different aspect of security, all of the divisions will ultimately focus on that one goal of national security. (Today that responsibility is scattered among more than 100 government agencies.)

Advantages for the Private Sector

Of particular interest to the financial services industry is the Department's Information Analysis and Infrastructure Protection division. This division will be responsible for threat analysis and warning, enhancing law enforcement's ability to preempt terrorist attacks. The division will complement the FBI's enhanced emphasis on counterterrorism by ensuring that information from the FBI is examined alongside all other intelligence the government receives. Also responsible for critical infrastructure protection, this division will act as coordinator for the national effort to secure the nation's critical infrastructure. The private sector will have one primary contact for working with the government on activities like vulnerability assessments and strategic planning, thus streamlining the process critical industries go through to coordinate with the government on national security issues. With improved communication and coordination, the net result of these changes will be a more comprehensive view of the threat landscape.

Another critical part of this new legislation is the Science and Technology area of the Homeland Security Department, which falls under the division responsible for Chemical, Biological, Radiological and Nuclear Countermeasures. Science and Technology efforts will focus on technologies specific to homeland security, and provide a forum for the private sector to share technology with the government and recommend solutions. As part of these efforts, the Homeland Security Advanced Research Projects Agency will provide sponsorship and funding for researching and exploring new technologies.

The Critical Infrastructure Information Act

In addition to providing for the creation of a cabinet-level Homeland Security Department, a portion of the bill called the Critical Infrastructure Information Act of 2002 allows Information Sharing and Analysis Centers to be officially sanctioned as Information Sharing and Analysis Organizations, which can be given antitrust protection under the Defense Production Act, making them exempt to the open meeting requirements of the Federal Advisory Committee Act. As a result, they can maintain private discussions of sensitive risk and threat information. The provision also allows critical infrastructure industries to voluntarily share sensitive risk and threat information with the federal government with the assurance that the information will be kept confidential.

With the bill just signed into law on November 25, there is much work to do in order to get the Department of Homeland Security up and running. According to the Administration, the project will be approached "piece by piece," with the goal of a fully functional Department of Homeland Security by 2005.



TELECOMMUNICATIONS RELIABILITY

One of the important lessons we learned from 9/11 is that our industry is heavily dependent on telecommunications and wireless networks. BITS set out in late 2001 to assess the stability of those networks. It is clear that serious deficiencies exist in telecommunications networks, leaving them perilously vulnerable to attack. Compounding the problem is the serious financial crisis within that industry. This year alone saw the collapse of two telecommunications giants, WorldCom and Global Crossing.

Our industry must act quickly to address crucial telecommunications reliability issues. The problems are far-reaching and affect all other critical infrastructure industries and the government. To address these issues sufficiently means working with telecommunications companies, industry groups and government agencies.

The BITS Telecommunications Working Group, chaired by John DiNuzzo, FleetBoston, has focused on bringing the matter to the attention of interested parties, outlining the scope of the problem, and making the financial services industry's expectations clear. BITS is working with a number of government agencies, including the National Security Telecommunications Advisory Committee, the National Communications System, the Federal Communications Commission and the Financial Services Coordinating Council for Critical Infrastructure Protection and Homeland Security. Additionally, BITS CEO Catherine Allen sits on the board of the Network Reliability and Interoperability Council (NRIC), representing the interests of the financial services industry. (The NRIC's mission is, in part, to assess telecommunications vulnerabilities and determine how to best address them.)

The BITS Telecommunications Working Group produced a white paper to help identify the scope of the problem, highlight the risks and propose actions to address those risks. The paper focuses on the risks that a vulnerable telecommunications infrastructure poses to the financial services sector, and identifies adverse consequences if those risks are not mitigated. In order to facilitate discussion, the BITS paper suggests a number of actions to be further examined with appropriate industry, telecommunications and government groups.

As BITS works to facilitate discussion of solutions to these issues, it is equally important that financial services executives have a thorough understanding of what is at stake. BITS member company CEOs, CIOs and CSOs have critical roles to play in driving solutions to these problems in concert with their counterparts in other industries.

A key challenge is to bring the sense of urgency that exists in the financial services industry to other critical infrastructure industries, as well as to the highest levels of the federal government. BITS will continue to drive this "agenda for action" until the necessary results are achieved.

For more information about the BITS Telecommunications Working Group, contact John Carlson, john@fsround.org.

Visit BITS on the Web
www.bitsinfo.org
for BITS publications,
presentations and
information about upcoming
BITS Forums and events.

Aggregation Services

Responses to the Working Group's RFI suggest that progress fell short of industry expectations, adding momentum to the efforts to establish safe and sound business practices for data feed and authentication technologies. The Phase II *BITS Voluntary Guidelines for Aggregation Services* focus on encryption, data feed and security architecture, as well as processes for account provisioning, and data exchange. The Phase II document will be incorporated into the Phase I Guidelines. A Technology Day to showcase aggregation technologies will be held during the first half of 2003. Contact Leslie Mitchell, leslie@fsround.org or Gary Roboff, garyrob1@aol.com.

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

Authentication

Working Group efforts focus on two areas: developing a briefing paper on authentication trends and the the role BITS might play in this space for CEO review; and creating and analyzing responses to a member survey on identity management and authentication practices. Survey results will help identify best practices for identity management and help with the briefing paper and other process flow work. Following the completion of these deliverables, a legal and regulatory team will map a framework of relevant laws and statutes to identify gaps in current law and evaluate the need to clarify legal issues. Contact Leslie Mitchell, leslie@fsround.org or Gary Roboff, garyrob1@aol.com.

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

BITS Product Certification Program

The BITS Product Certification Program (BPCP) was officially restructured at the Security and Risk Assessment Working Group meeting in November. The BPCP assures financial services companies that the technology products they purchase have met minimum security criteria. During the meeting, a session was held for 35 technology providers and representatives from 50 BITS member companies to educate them on the BPCP. BITS Chairman James E. Rohr, Chairman and CEO, The PNC Financial Services Group, was on the calls to emphasize CEO interest in the BPCP. As part of the BPCP marketing efforts, BITS

will meet with each of the vendors who attended the call. Additional conference calls were held Dec. 2 (for technology vendors) and Dec. 16 (venture capitalists). Twenty-five vendors attended the Dec. 2 call, and 25 VCs were invited to the Dec. 16 call. Visit www.bitsinfo.org/fslab.html or contact Jennifer Miller Dickerson, jennifer@fsround.org; Laura Lundin, laura@fsround.org or Ben Stafford, ben@fsround.org.

Lab Governance Committee

*Co-Chairs: Eric Guerrino, The Bank of New York
Bill Sentenac, Wells Fargo & Company*

Wells Fargo intends to satisfy all of our customers' financial needs. We know retaining our customers' business depends on fulfilling their expectations for quality service, including securing their personal information and financial transactions. We regard the **BITS Tested Mark** as the minimum acceptable assurance that the technology products we buy meet Wells Fargo's explicit standards for security and privacy.

*- Richard M. Kovacevich, Chairman and CEO
Wells Fargo & Company*

Consumer Privacy

The Privacy Working Group continues to focus in two major areas—emerging trends related to software-enabled consumer privacy preference tools, and proprietary research related to the effects of privacy and security issues on consumers' financial services behaviors. The third year of the Consumer Research Project is underway. High-level results will be reported by April 2003. In addition, the Working Group meets on a monthly basis to serve as an information-sharing forum for members. Contact Cheryl Charles, cheryl@fsround.org.

Privacy Working Group

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

Crisis Management Coordination

The Working Group has been developing *The BITS and FSR Crisis Management Process: Members' Manual of Procedures* to assist members during crises. The *Manual* provides an action plan to facilitate communication during a crisis that affects the nation's financial services critical infrastructure. The principal focus is on supporting members to protect and maintain the financial services critical infrastructure. A condensed

· **UPDATE ON BITS INITIATIVES, CONTINUED**

· version of the *Manual* will also be available.
· Both the full *Manual* and the *Condensed Version*
· will be available in the Members Only section
· of the BITS Web site by January 2003. For
· more information, please contact Teresa C.
· Lindsey, teresa@fsround.org.

· On Nov. 15 Angela Desmond, Federal Reserve
· Board, summarized the comment letters that
· the Federal Reserve received on the "Draft
· Interagency White Paper to Strengthen the
· Resilience of the U.S. Financial System" at the
· BITS/American Banker Outsourcing Confer-
· ence. The comment letters expressed general
· support for the efforts, with some concerns,
· including that the sound practices be more risk-
· based. The White Paper is available at
· www.occ.treas.gov/ftp/release/2002-68.pdf. The
· Telecommunications Working Group continues
· its work to address network reliability issues.
· (See p. 4.) For more information on BITS'
· Crisis Management Coordination Initiative,
· contact: Teresa C. Lindsey, teresa@fsround.org;
· John Carlson, john@fsround.org; Jennifer Miller
· Dickerson, jennifer@fsround.org; or Heather
· Wyson, heather@fsround.org

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

· **Fraud Reduction**

· BITS held a conference call in November to
· introduce the Debit Card Loss Reporting and
· Loss Avoidance Reporting processes, which
· will be rolled out with the ABA in 2003. The
· Collections Working Group continues to draft
· voluntary guidelines for financial institution
· collections. The Successful Strategies Working
· Group continues to showcase vendor technol-
· ogy and is researching technology to assist in
· USA Patriot Act compliance. The Identity Theft
· and Internet Fraud Working Groups will release
· white papers by January. The Database Working
· Group will finalize its pilot of negative em-
· ployee information with vendors in December
· and present findings to the Fraud Reduction
· Steering Committee. The Electronification
· Working Group held a conference call on Dec.
· 13 to discuss the NACHA request for comment
· on corporate check conversion/truncation and
· to develop its focus for 2003. Contact Robin
· Slade, robin@fsround.org

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

· **IT Service Providers**

· On November 14 and 15 BITS and American
· Banker held the Financial Services Outsourcing
· Conference. Attendees heard presentations on
· vendor management, security audit and assess-
· ment, and cross-border outsourcing. The
· Working Group is making progress in its four
· projects and collaborating with Roundtable and
· financial and technology associations to educate
· stakeholders on the *BITS Framework for Manag-*
· *ing Technology Risk for Information Technology Service*
· *Provider Relationships*. Project teams working on
· vendor management best practices, disaster
· recovery and business continuity planning, and
· cross-border outsourcing will help update the
· *Framework*. Comments on the Security Assess-
· ments Project Team's Expectations Matrix were
· due Dec. 6. Contact Faith Boettger,
· faith@fsround.org

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

· **Operational Risk**

· Rachel Floars, BB&T, has been named Co-
· Chair, along with Paul Smocer, Mellon Finan-
· cial. Conference calls continue, focusing on
· basic elements of operational risk management
· (ORM), such as developing a working defini-
· tion of operational risk, building an infrastruc-
· ture to facilitate ORM, and enhancing corporate
· awareness and communication. The Working
· Group has invited representatives of the OCC,
· Federal Reserve and FDIC to December's
· conference call to provide an informal update
· on the new Basel II Accord and discuss regula-
· tory challenges and anticipated implementation
· issues. A joint subgroup of this Working
· Group and the BITS Security and Risk Assess-
· ment Working Group has begun to identify key
· information security risks that influence opera-
· tional risk management. An Operational Risk
· Forum will be held in Washington, D.C. on Feb.
· 12. Contact Laura Lundin, laura@fsround.org

· *Operational Risk Working Group*
· *Co-Chairs: Rachel Floars, BB&T*
· *Paul Smocer, Mellon Financial*

· **Patent Issues**

· A Task Force within the Patent Issues Working
· Group has developed a memorandum with
· suggestions for possible pilots within the U.S.

· *Continued on p. 7*

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

Patent and Trademark Office. A conference call was held on Dec. 3 with representatives of the Business Method Patents area of the USPTO and representatives of the BITS Working Group. The purpose was to explore, in a collaborative way, possible changes that potentially could be made procedurally within the patent process with a goal of further improving the quality and speed of the process. These discussions will continue and a pilot within the USPTO is being considered.

Contact Cheryl Charles, cheryl@fsround.org

Patent Issues Working Group

Co-Chairs: Mark Kesslen, J.P. Morgan Chase & Co.

David Schreiber, Citigroup

Payment Strategies

The BITS Advisory Group approved the Steering Committee's Strategic Payments Model and recommended its distribution. The Payments Model will be available at no cost to BITS members, and at a market rate to nonmembers. The Check Safekeeping Working group is writing a white paper that highlights best practices and examines how historic barriers to safekeeping can be overcome with emerging technologies. The ECP Working Group has scheduled the first in a series of regional ECP forums for Birmingham on January 14. Contact Gary Roboff, garyrob1@aol.com, or Leslie Mitchell, leslie@fsround.org.

Payment Strategies Steering Committee

Chair: John Beran, Comerica

Security and Risk Assessment

At the Working Group's quarterly in-person meeting the group was updated on: Financial and Banking Information Infrastructure Committee (FBIIC) and the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC); pending legislation establishing the Department of Homeland Security and terrorism insurance; BITS' Telecommunications White Paper; and reaction to the Draft National Strategy to Secure Cyberspace as well as the Draft Interagency White Paper to Strengthen the Resilience of the U.S. Financial System. Results of recent IT examinations by regulators were discussed, as well as member organizations' top security-related concerns in four major areas: product security, regulation/supervision, critical infrastructure, and operational risk. The group welcomed Mary Jane Bolling, Capital One, as Vice Chair of the Working Group. Contact John Carlson, john@fsround.org or Laura Lundin, laura@fsround.org.

Security & Risk Assessment Steering Committee

Chair: Jeffrey Stempora, State Farm; Vice Chair:

Mary Jane Bolling, Capital One Financial Corporation

Standards

The Steering Committee sponsored a presentation by Alan Moulton from MIT's Sloan School on Context Mediation to the Advisory Group at its Nov. 7 meeting. The Advisory Group approved the Steering Committee's request to conduct additional due-diligence on the concept, after which it will make a recommendation on how to proceed, and whether to recommend a market pilot test of the concept. The Committee made brief presentations on its approach to use straight-through processing, Web services, and statement integration as vehicles through which to develop the business case for standards integration. Contact Gary Roboff, garyrob1@aol.com or Leslie Mitchell, leslie@fsround.org.

Standards Steering Committee

Chair: Dan Schutzer, Citigroup

MEMBERSHIP UPDATE

BITS and The Financial Services Roundtable are pleased to welcome new members ACE INA and Allianz Life Insurance Company of North America. BITS recently met with National Commerce Financial Corporation to review BITS' current initiatives and briefed new members Minnesota Life Insurance Company and State Street on BITS initiatives. To learn more about BITS membership, please contact Ann Patterson at 202-289-4322, ann@fsround.org.

BITS STAFF

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Wattie Bennett, Executive Assistant
Faith Boettger, Senior Consultant
John Burke, Outside Counsel
John Carlson, Senior Director
Cheryl Charles, Senior Director
Elaine Clayton, Administrative Assistant
Jennifer Miller Dickerson, Senior Director
Teresa Lindsey, Chief of Staff and Senior Director
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Iris Simpson, Administrative Assistant
Robin Slade, Director
Susanna Space, Communications Manager
Ben Stafford, Project Manager
Keviar Warner, Project Manager
Heather Wyson, Project Manager

Richard A. Clarke is the Special Advisor to the President for Cyberspace Security and Chairman of the President's Critical Infrastructure Protection Board. BITS has held regular meetings with Mr. Clarke during recent months to discuss BITS' initiatives and how BITS can work with the federal government to achieve common goals related to IT security and crisis management.

This is one in a continuing series of interviews with members of the BITS and The Financial Services Roundtable Boards of Directors, BITS Advisory Group, BITS Council and other key leaders in electronic commerce and financial services.

BITS: What major events do you think are likely to unfold in the cyberspace arena within the next year?

RC: In addition to the release of the National Strategy to Secure Cyberspace, the development of a new Department of Homeland Security (DHS) will continue to improve coordination and information sharing between the public and private sector. Cybersecurity will be an important piece within the new department, as agencies working on various cyber initiatives within other departments will come together to work jointly.

BITS: Will the Office of Cyberspace Security be moving to the new Department of Homeland Security?

RC: Currently the Administration does not plan to move the Office of Cyberspace Security or the President's Critical Infrastructure Protection Board. Even with the establishment of DHS, there is still a need for a White House office to coordinate presidential policy, both domestically and globally on this issue. There are other agencies outside of DHS that will continue to have a role in cyberspace.

BITS: When it comes to securing cyberspace, what keeps you awake at night?

RC: Cyberspace is borderless and contains so many vulnerabilities. It's not a question of if but when there will be a massive cyber attack on our critical infrastructure. The federal government must continue to work closely with the public and private sector to ensure that, when a cyber attack does occur, there is an immediate response to mitigate the impact. Our regular meetings with BITS have been an important part of this as far as the financial services sector goes. BITS is really a model for the private sector in the way it addresses these complex technical issues.

BITS: While there's heightened concern about cyber terrorism post 9/11, the financial services industry also is concerned about disgruntled employees posing a cyber threat to our companies and the nation's economic security at large. What's your opinion?

RC: Certainly insider threats are a key concern that financial services companies need to address at the individual corporate level. However, we learned from 9/11 that we as a nation have been too reactionary and not proactive enough. As I told the audience at the BITS/American Banker Financial Services Outsourcing Conference, companies tend to focus on the threat and not enough on the vulnerabilities. What companies need to do is identify their greatest vulnerabilities and the areas where an attack could do the most damage, and address where those areas intersect.

The National Threat Assessment Center of the U.S. Secret Service is conducting a study on the insider threat in conjunction with the CERT Coordination Center. The study needs participants from all sectors with an anonymous survey and FOIA exempt data sharing on internal investigations. This study could provide us with an idea of the threat.

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