

# CONNECTED



AN ELECTRONIC REPORT FROM THE CUNA TECHNOLOGY COUNCIL

## MESSAGE FROM THE CHAIR



Let me take just a few minutes of your valuable time to review CTC progress to date in 2003 and preview some important initiatives for next year.

One of our greatest strengths as a community of technology

professionals is the network of people created through our membership. The CTC continues to grow, with a total membership of 345 as of July, compared to 315 the same time in 2002. A major goal for 2004 is to continue our membership growth for the benefit of all credit union technology professionals. Be sure to mention the benefits of CTC membership to your peers, user groups, and others who can contribute to the Council.

At the recent CUNA Future Forum, the CTC awarded its Best of Show citation to Strohl Systems, a vendor of business continuity systems. The Strohl software package allows users to develop top-flight business continuity plans.

For 2004, the Council will sponsor a "Nifty Nine Emerging Technologies" list, to be published in the December issue of *Credit Union Magazine*. This list will alert credit unions to top developments in technology, thereby allowing them to prepare accordingly.

The CTC has become known for its knowledge of technology, and serves as a voice for

our area of expertise in the credit union industry. Over the past year, CTC representatives have been asked to speak to many organizations, including the CU InfoSecurity Conference; CUNA Marketing, Finance, and Operations Council conferences; the 2002 CUNA Symposium; Oregon/Washington CUES Council; and Northwest Corporate Credit Union Technology Conference.

Our participation with the BITS Consortium has paid dividends as well. We are currently represented on four BITS workgroups including e-signature, third party service providers, privacy, and Internet fraud.

CTC networking opportunities include our Annual Conference, an excellent venue for networking and education. The council listserv provides a forum for the exchange of information and ideas. Members find that posting documents in the Attachment Archive is an excellent way to enhance their listserv experience. And white papers address topics vital to our profession.

On behalf of the executive committee, I want to thank all members, for their continued participation and on-going support of the CUNA Technology Council. Please feel free to contact your executive committee members with suggestions for enhancing council benefits or to volunteer to participate in CTC activities. ♦

Jim Morrell  
VP Information Services  
Clark County School Employees CU

One of our greatest strengths... is the network of people created through our membership.

### In This Issue

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## ACTIVITIES

### Tech Council rates BAI Show Exhibits

For the third straight year, the CUNA Technology Council will conduct a "Best in Show" competition at the Bank Administration Institute (BAI) Retail Delivery conference, November 17-20 in New Orleans. CTC executive committee member Dan Kinne has recruited volunteer judges who will each cover a section of the exhibit hall and visit each of the finalists in search of the most relevant product or service to a broad range of credit unions.

"We feel the BAI show has great value for credit union participants," Kinne says, "and we wanted to make credit unions more visible. The "Best in Show" award evolved from there." The presentation of awards is made on the show floor. Conference dignitaries participate in the presentation on the show floor, and the awards program has gained substantial momentum in its three years of operation.

"Last year," Kinne says, "credit union representatives made up about 25% of total confer-

ence participation. This year, we understand that the president of BAI will be with us for the presentation of awards, Wednesday, November 19 at 5:00 p.m."

At this show, the judging panel is looking for products and services that would appeal to larger credit unions. Vendors must have a product or service available at the show; it must be priced right; the vendor must have a track record; and the product must be applicable to credit union operations.

"We think this awards program is an asset to Technology Council members and the credit union community at large," Kinne says, "because it highlights products and services that a panel of peers has judged worthwhile and appropriate for credit union applications." ♦

To find who received the awards, go to <http://www.cuna.org/newsnow/archive/list.php?date=112003#story7>.

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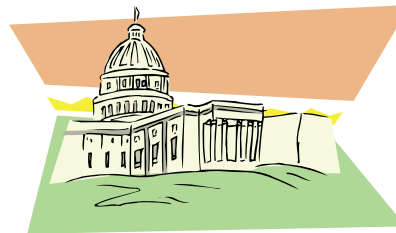
## EYE ON WASHINGTON

### Check-21 Regulation Development

The Federal Reserve said it will issue its proposed rule implementing the new Check Clearing for the 21st Century Act by the end of 2003. Credit unions will then have 60 days to comment on the proposal.

CUNA plans to provide comments both before the Federal Reserve produces the initial regulation and after the Fed issues it in final form. Last week, at the Federal Reserve's Payments System Development Committee 2003 Conference, the Fed said comments were welcome before it issues the proposed rule.

CUNA Assistant General Counsel Michelle Profit said the Federal Reserve is expected to issue a final rule implementing the new regulation by the middle of 2004. The law calls for the regulation to take effect one year after enactment, which is Oct. 28, 2004. CUNA will develop its comments in conjunction with CUNA's Payments System Subcommittee.



CUNA and the Association of Corporate CUs (ACCU) were the only national credit union trade associations to represent the credit union movement at the Federal Reserve's conference last week.

Federal Reserve Board Governor Roger Ferguson said the Fed will:

- Look to dismantle legal and regulatory barriers to electronic payments;
- Participate in areas of research to examine check usage, similar to last year's Fed study on the payments system that showed for the first time that check usage was declining;
- Continue to participate in examining and setting standards for all payments system methods; and
- Work to foster dialogue between all stakeholders, including financial institutions, third party service providers, and consumers. ♦

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## Senate Debates Fair Credit, ID Theft

The Senate is to begin floor consideration in early November on the National Consumer Credit System Improvement Act (S. 1753) with limited amendments. This CUNA-backed bill would permanently extend certain federal preemptions to the Fair Credit Reporting Act (FCRA), thus preserving the uniform national credit reporting system, and provide for new consumer protections against identity theft.

An agreement was reached in late October to allow up to 25 amendments to be offered during the debate. CUNA told all senators last week that in the interest of time and renewing the federal preemptions before the Dec. 31 expiration, only the Manager's Amendment, which contains the text of the overall bill, should be approved.

Senators Dianne Feinstein (D-CA) and Barbara Boxer (D-CA) are expected to offer amendments that would protect recent financial privacy laws enacted in California.

Among other things, the Manager's Amendment would:

- Make the federal preemptions permanent (a

top priority for CUNA);

- Address identity theft prevention;
- Protect the credit history of identity theft victims;

- Provide consumers with greater access to credit information, including their credit reports and credit scores;

- Limit the use and sharing of medical information in the credit reporting system;
- Provide consumers with an "adverse action notice" if the material terms (including the interest rate) of the extension or grant of credit in a counter offer are materially less favorable than the terms generally available to consumers from the creditor; and

- Create a financial literacy commission charged with improving the financial literacy and education of all Americans. ♦



To learn more about privacy and FCRA, go to [www.cuna.org/gov\\_affairs/legislative/issues/privacy\\_fcra.html](http://www.cuna.org/gov_affairs/legislative/issues/privacy_fcra.html). For more information on privacy and ID theft, see [www.cuna.org/gov\\_affairs/legislative/issues/privacy\\_idtheft.html](http://www.cuna.org/gov_affairs/legislative/issues/privacy_idtheft.html)

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## REPORTS AND REVIEWS

### Internet Banking Transaction Volume and Costs

#### Internet Banking and Members/Consumers

Consumer adoption of Internet banking (or PC banking) is moving at a slower pace than originally forecasted. It's also apparent that results financial providers anticipated from offering Internet banking—lower operating costs, increased revenue, and reduced consumer reliance on in-person transactions—have, for the most part, gone unrealized.

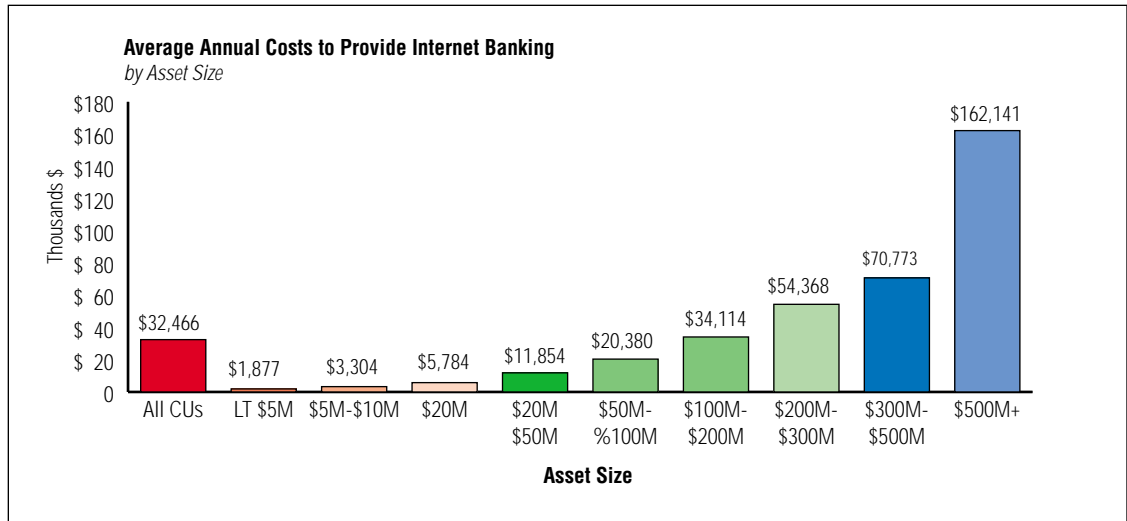
But slower consumer adoption and the minimal impact to branch reliance notwithstanding, the use of Internet banking is on the rise, as both the number of institutions offering the

service and the number of consumers using it continue to grow. Active use of online banking will increase from 15% of U.S. households at year-end 2001 to 25% by year-end 2005, according to TowerGroup.

Overall, in 2002, 17% of members used Internet banking at some type of institution at least once a month, which is up from 11% in 2000 and well above the 11% figure found among nonmembers in 2002, according to CUNA's *2002 National Member Survey Report*.

#### Internet Banking and Credit Unions

Credit unions appear to be aware of the value



of offering Internet banking as another way to better serve their members. According to CUNA's *2002/2003 Technology & E-Commerce Survey Report*, in 2002, three in 10 credit unions offered Internet banking to their members, double the percentage of credit unions just two years earlier.

As has been the case in the past, the likelihood that a credit union offers Internet banking to its membership increases with assets. In fact, virtually all credit unions with more than \$200 million in assets currently offer Internet banking.

On average, about 10% of a credit union's members are conducting at least one transaction per month through the credit union's Internet banking service. The active-user penetration level tends to increase with the length of time the credit union has offered Internet banking, to just over 18% among credit unions that have offered Internet banking for 5 years or more. This suggests that it takes time for members to become aware that their credit union offers the service and has taken adequate security measures to prevent unauthorized access to accounts via the credit union's Internet banking feature. Concern about secu-

rity is the most common reason members cite for not using online banking, according to the *2002 National Member Survey Report*.

The *2002/2003 Technology & E-Commerce Survey Report* goes on to point out that those credit unions that offer Internet banking to their members are processing an average of 24,203 Internet transactions per month, or an average of 6.5 transactions per active member per month.

Credit unions offering Internet banking estimate that it costs an average of just over \$32,000 per year to offer the service. This figure increases steadily with assets, ranging from less than \$2,000 annually among credit unions with less than \$5 million in assets, to over \$162,000 among credit unions with more than \$500 million in assets. This average does not include any salary or benefit expenses or costs associated with providing a PC-based bill payment feature. ♦

Research Review Issue #18  
by Chad Thiele

Senior Research Analyst CUNA & Affiliates

Read more Research Reviews at  
[http://advice.cuna.org/research\\_review/index.html](http://advice.cuna.org/research_review/index.html)

## Bank IT Spending Will Increase Only 3.3% Through 2007



Bank IT spending will increase slowly through 2007, moving from \$33.8 billion in 2003 to \$38.2 billion in 2007 (a compound annual growth rate of 3.3%), according to TowerGroup, Needham, MA and reported in CUNA's *The Point for Credit Union Research and Advice*.

But amid discussions of budget freezes and drops in IT spending, a new emphasis on strategic cost management that many banks adopted in 2001 is now bearing fruit, opening the door to increased investment in core pockets of technology. "While the banking industry will see only nominal increases in total IT spending through 2007, the aggregate numbers don't paint the

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full picture,” says Virginia Garcia, senior analyst of TowerGroup’s financial services strategies and IT investments practice.

**Highlights of TowerGroup’s findings include:**

- This year, banks will focus more than 81% of IT spending on maintenance of existing technology infrastructures. Maintenance will continue to account for the bulk of IT investment through 2007.
- As efficiencies achieved through long-term cost-management projects begin to take hold, the total maintenance share of the pie will begin to decrease. By 2007, maintenance spending will have grown just over \$1 billion from 2003, but will account for 75% of total IT spending.
- While IT spending growth over the next few years might not be substantial in aggregate, core pockets of technology will receive greater emphasis. The decrease in maintenance spending as a percentage of the total

IT budget will open the door for increased growth in both replacement and new technology spending.

- Consumer banking technologies will command the lion’s share of investment. In 2004, banks will invest \$22.8 billion in consumer banking technology, versus \$8.02 billion for wholesale banking and \$3.88 billion for payments.
- While IT staffing will remain flat through 2004, banks will increase investments in hardware, software, outsourcing, and professional services. Because of the efficiencies gained through strategic external spending on areas like outsourcing and software investments, banks have been able to streamline internal IT staffing levels. ♦

If you haven’t yet signed up for a free 30-day trial of The Point for Credit Union Research and Advice, you can do it now at [http://thepoint.cuna.org/free\\_trial.html](http://thepoint.cuna.org/free_trial.html)

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## HEARD IT ON THE LISTSERV

The CUNA Technology Council listserv is an excellent resource through which to obtain advice and council on pending issues, and to network with fellow members. Following is a

digest of some of the subjects recently discussed by members. Check it out for yourself, for a more complete review of comments and suggestions.

### Web site logos

A member was advised that regulators are looking at the Web and home banking sites for the NCUA insured and housing disclosures logos. This member asks if others have experienced this, and the result. Some responses:

*“We recently had a compliance review of our Web site and the logo application was one of the items discovered. According to our security consultants the regulation does require logos on the Web site.”*

*“We were advised by NCUA during our last exam that we were not in compliance. We have since*

*placed the Equal Opportunity Lender and NCUA logos on our Internet Home Banking Site and on our Web site. Our Home Banking is outsourced to our data processor, but they were happy to oblige.”*

We include the logos on all relevant pages. A review by RSM McGladry included this as one of a list of absolute musts.”

“We ran into the same thing—we were not in compliance according to our NCUA examiner. It was quick and easy to remedy.”

### Network vulnerability assessment

A member asks whether others conduct a network vulnerability and penetration assessment annually. This credit union’s security policy calls for an annual review, but it can

be expensive and they considered doing the assessment every two years.

Some responses:

*“We had an NCUA IT exam at the end of last*

year and they suggested this be done at least once a year. We had already been doing so once a year.”

“CUNA Network Services (now Liberty Internet Services) offers these services at an affordable rate.”

“We signed a contract with SecureWorks for an iScanner appliance that will actively monitor our IPs both inside and outside the firewall. It provides quarterly reports identifying vulnerabilities, their level of risk, and methods of correction.”

“We bought vulnerability testing software and have been conducting the testing on a quarterly basis through our risk management department. With this we were comfortable moving our annual security review and external testing to every two years.

The auditors have accepted this during the last two years, but in our most recent review, it was strongly suggested that we now move to an annual external review.”

## Operations center query draws big response

A council listserv question on plans for a new operations center received a plethora of responses. A council member asked for information on computer rooms for in-house systems, including such data as: size, physical and fire prevention security, work area for computer repairs, report printer located in the room, and any other functions performed in this room.

One of the most comprehensive responses comes from Gregory Bristow, TLC Community Credit Union. Bristow reports that TLC’s computer facility is a secure room approximately 60 by 40 feet, where four staff members work. Inside the room is a glass partitioned room 30 by 40 feet and secured with key entry for server racks and software cabinets and backup tapes.

The room has two combination keyless entry locations. The floor is raised against flood disasters with a flood alarm. It also has smoke detectors and motion alarm sensors,

and a panic button to shut the room down. It does not have halogen sprinklers, which Bristow recommends for fire. He also favors monitoring video cameras.

All doors at the TLC facility are locked at all times, and the sever room is locked at night.

The server room also contains report printers and check printers. “We have dedicated power for the rack system separate from the other outlets in the room,” says Bristow. “Our management would have liked all phone d-marks and punch down blocks, t1’s in this room, but this was not done in the initial building phase. Our PBX is also in the server room. All supplies and hardware are in a room off the IS department.”

Users need a code to enter, or they need to ring a doorbell. A key is required to enter the server room. And, Bristow suggests, the ceiling should be built so an intruder cannot enter through it. ♦

## IDEAS & PRODUCTS

### Top 10 Emerging Trends in Money Technology



As technology advances in nearly every part of life, credit unions and the financial services industry are likely to see a greater number of changes, particularly in the way transactions are handled.

The DaVinci Institute, a business development group focusing on entrepreneurial enterprises and emerging innovators, is hosting a Future of Money summit to look at the changing face of money and technology. Credit unions might want to look closer at some of the Institute’s top 10 emerging trends in money technology:

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**10. The emergence of the multi-channel shopper.**

Consumers may not always purchase items online, but they do see the Internet as a research tool.

**9. Decentralized information leading to decentralized money systems.**

As technology connects individuals from around the globe, new markets are created.

**8. A disappearing checking industry.**

Online banking will increase and the use of paper checks will decline. Banks will lose any ability to generate fee income from basic online banking by the end of this year.

**7. Prepaid debit card industry set for explosive growth.**

The prepaid debit card market is expected to grow by 338%—to almost \$800 million—by 2005.

**6. Radio frequency identification (RFID) tags setting the stage for automatic-checkout lines.**

RFID tags allow objects to talk to objects.

**5. Mobile payments industry poised for expansive growth.**

M-commerce transactions will make up 8% of all online transactions by 2005, including personal computers and interactive TV.

**4. The coming credit card boom in China.**

Although credit cards are relatively new in China, Chinese consumers are showing a strong appetite for the credit services.

**3. The U.S. automated clearing house (ACH) system positioned for expansive growth.**

ACH is showing strong growth with financial institutions originating 8.05 billion ACH payments in 2002. Transactions in 2002 equaled \$21.7 trillion, rising to \$24.4 trillion when adding in the federal government's 8.94 billion payments.

**2. Convenience stores to compete with banks.**

7-Eleven will offer in-person bill-payment services with e-Money Systems through 7-Eleven's Vcom electronic kiosks.

**1. Emerging dual-currency systems.**

Dual-currency systems have grown to more than 5,000 worldwide. The system features a national currency supplemented by a complementary currency, such as frequent-flier programs.

Excerpted from CUNA's *News Now*, October 9, 2003.

Sign up to get *News Now* headlines here: [www.cuna.org/newsnow/newsnow.html](http://www.cuna.org/newsnow/newsnow.html) ♦

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## Automated E-Mail Systems Rely On Human Hands

While they are a natural to lighten customer service loads, e-mail response systems pose all sorts of challenges, says Elizabeth Judd in *The Point for Credit Union Research & Advice*. Still, providers increasingly feel they have little choice but to put them in place. Message volume is growing rapidly and maintaining top service means responding to customers however they want to be served.

Automation provides at least part of the solution. Institutions have installed systems that bounce back a quick acknowledgement before routing an inquiry to the appropriate customer representative who is equipped with a range of potential responses.

And there are other potential payoffs. Financial institutions with pure manual response systems can only make rough estimates of how much e-mail they receive and how many inquiries are handled each hour. Automated

systems provide accurate records that can be used to improve workforce scheduling and offer insights into customer behavior.

What's more, autosuggest features, which provide a response that the rep can either modify and send or reject in favor of another suggestion, avoid many of the compliance issues surrounding e-mail, since all responses can be vetted beforehand.

Despite these advantages, e-mail automation isn't always an easy sell in the executive suite. Financial institutions pay up to \$400,000 for the systems, and the overall costs run much higher because of the considerable time and effort required to build a knowledge base for them. Specialized training is also necessary. Still, for financial institutions that are committed to improving customer service in the online channel, e-mail automation is definitely one place to look. ♦

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## Easing the Pain of E-Mail Mishaps with Politeness

A side effect of the recent torrent of e-mail messages unleashed by worms and viruses like Blaster and SoBig.F, according to Alan Krauss writing in the *New York Times*, is the increase in electronic “return to sender” notes showing up in user Inboxes.

In the bounce messages, as they are known, strings of letters and numbers are followed by a phrase saying that a message could not be delivered. It is typically rendered in dry automatonese, as in: “The IronMail encountered problems while parsing the attached message. The message has a malformed mime. The message has not passed through any of the queues in IronMail.” But one e-mail server program, Qmail, sends a bounce message that is personable and even a bit apologetic.

“Hi,” says one such message from an e-mail

server computer running Qmail. “This is the qmail-send program at email.seznam.cz. I’m afraid I wasn’t able to deliver your message to the following addresses. This is a permanent error; I’ve given up. Sorry it didn’t work out.”

Qmail, available free from the Web site Qmail.org, was written by Daniel J. Bernstein, a professor at the University of Illinois at Chicago. He created it as an alternative to Sendmail, the most widely used e-mail server program. In Qmail, if something goes wrong internally, the program sounds a note of alarm: “Alert: Oh no! Lost Qmail connection. Dying...”

Recipients of the Qmail messages routinely assume the sender is a living being. Users see that and think that a person actually typed it in and that they should respond. People actually do reply. ♦

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## NEW MEMBERS

The CUNA Technology Council has added eight new members. By joining their colleagues on the council, these individuals have demonstrated their commitment to the devel-

opment of superior skills. They also join us in networking for the free exchange of ideas and improving the overall effectiveness of their credit union’s IT operations.

### **Imran Bidiwala**

Systems Analyst  
Edwards FCU  
Edwards, CA

### **Steven J. Elliott**

Technology Director  
Northwest Resource FCU  
Portland, OR

### **Angelo Fanaras**

Information Systems Manager  
Public Service CU  
Detroit, MI

### **Terrence M. Griffin**

VP-Information Services  
Atlanta Postal CU  
Atlanta, GA

### **Karl F. Kraus**

VP-Information Technology  
Kraft Foods FCU  
White Plains, NY

### **Stephen T. Pittman**

Information Technology  
Coordinator  
Bronco FCU  
Franklin, VA

### **Jennie R. Schank**

Mktg/IT Support Manager  
Snohomish County PUD CU  
Everett, WA

### **Tom A. Witcher**

AVP-Technology  
United Southeast FCU  
Bristol, TN



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