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Security Becomes Financial Watchword -- Banks and other financial firms are using technology to make sure data doesn't fall into the wrong hands

BYLINE: Steven Marlin

The financial-services industry has been roiled this year by a string of data-security lapses involving tapes lost in transit, losses and theft of payment-card information, phishing attacks, and insider scams. The list of companies that have been stung reads like a Who's Who of the financial-services industry: Ameritrade, Bank of America, Citigroup, City National Bank, Commerce Bancorp, PNC Financial Services, and Wachovia. The data-security problem reached a new level in June when it was disclosed that a security breach at payment processor CardSystems Solutions Inc. had led to the exposure of 40 million card accounts.

Not surprisingly, security tops the list of IT priorities at many financial-services companies. Citigroup has said it would encrypt all tapes bound for transit, while Bank of America improved its tape-tracking procedures and launched a system intended to thwart phishing.

"A day doesn't go by where information security isn't front and center," says Katherine Busser, CIO of the U.S. card division at Capital One Financial Corp.

Banks, insurance companies, and investment firms will spend $362 billion worldwide this year on IT, according to research firm TowerGroup. Information security, which accounts for about 4% of that total, will be upgraded on several fronts, TowerGroup VP Guillermo Kopp says, by using technology such as two-factor authentication, biometrics, and intrusion detection.

Other IT priorities in financial services are profitability management and improving revenue streams using technology, according to research firm Financial Insights. At Vanguard Group, IT priorities are centered on capturing the assets of soon-to-retire baby boomers, who have a predilection for using the Web to check their retirement accounts. Eighty percent of Vanguard's customer interactions occur over the Web.

"We're investing heavily in technology that leverages our virtual presence," CIO Tim Buckley says. The company has invested in customer self-service technologies and has built portals that pitch products aimed at demographic segments, such as college-savings plans for parents. It's also dispensing financial advice over the Web to 401(k) plan participants.

At Capital One, profitability has revolved around diversification. In recent years, the company has expanded into auto and home-equity loans, and-through its recent purchase of Hibernia Corp.-into traditional banking. That's in marked contrast with credit-card rivals Providian Financial Corp. and MBNA Corp., which are being acquired by Washington Mutual Inc. and Bank of America Corp., respectively.

One trick in diversifying is fitting together the IT pieces of the acquired companies. "If you diversify without a plan, you can diversify into chaos," says **Gregor Bailar,** Capital One's CIO. In the Hibernia acquisition, Capital One is moving some of its deposit operations onto Hibernia's platforms because of that bank's core competencies in that area, he says.

IT is a driver of Capital One's productivity initiative called Future of Work. Under the program, traditional offices and cubicles are replaced by mobile work areas, retreat spaces, and casual work environments. Enabling technologies include wireless phones, broadband access, and voice over IP. The idea, Bailar says, is to "foster collaboration by providing the technological tools and environment needed to work beyond a traditional office setting."