

**WELLS
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E-Commerce at Wells Fargo

SF IIA/ISACA Presentation

By

Wells Fargo Audit Services

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Discussion Topics

- E-Commerce at Wells Fargo - Our Story
- E-Commerce Risks
- General Conclusions
- Q&A
- Afternoon Session



Background - Where We Started

9/99 Discussion With Wells Fargo's CTO

- **Wake Up Call!**
- **Call To Arms!**



Background - Where We Started

E-Commerce Activities At Wells Fargo

Recognized as a Leader for Growth and Innovation

- 1.7 Million Online Customers (1999) - more than double since 1998
- wellsfargo.com
- New Products and Services (Internet)
- Decentralized Responsibility for EC Initiatives



Background - Where We Started

E-Commerce is Changing the Competitive Landscape

COMPETITORS:

- Non-Traditional Financial Institutions
- Portals
- Non-bank companies
- Dot-Com's
- New dominators

TECHNOLOGY:

- Rapid changes
- New channels
- Evolving standards
- Increasing ubiquity

**WELLS
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CUSTOMERS:

- Mobile
- Diverse geographies
- Price sensitive
- Anytime, anywhere
- One-stop shopping

THREATS:

- Intrusions
- Disruptions
- Regulations
- Fraud
- Aggregation



Background - Where We Started

- **Moving At Internet Speed**
- **EC Activity Is Growing At A Rapid Pace**
- **Business And Technology Risk Profiles Are Changing**



Background - Where We Started

Audit's Reaction/Response

Do We Have Answers To These Basic Questions?

- What is E-Commerce? How is it Defined?
- What E-Commerce Activities are Occurring Within Wells Fargo, and Where?
- What Risks are Associated With These Activities?



Background - Where We Started

- **Do We Have Adequate Audit Coverage and Are We Doing Enough?**
 - **Project Basis Auditing**
 - **Some Recurring Operational Audits**
 - **Silo Approach**
- **What Is The Best Approach To Audit These Activities?**



What We Did - Where We Are

Launched An Enterprise Wide E-Commerce Project

Project Objectives

- Provide Executive Management with an enterprise level assessment of the processes in place to allow E-Commerce objectives to be met
- Assist the organization in evolving its controls as the E-Commerce business model changes and E-Commerce needs evolve
- Provide comparison to good industry practices
- Develop an approach for auditing E-Commerce activities within Wells Fargo



What We Did - Where We Are

E-Commerce Project

Project Team

- **Business and Technology Auditors**
 - “A” Team Players
 - Experienced
 - Understands the Business
- **Partnership with KPMG**
- **Fully Dedicated Resources**

Project Approach

- **3 Phases**



What We Did - Where We Are

Phase I - Planning & Strategic Analysis

- **Gather Wells Fargo Specific Information Pertaining To:**
 - **Business Objectives and Strategy**
 - **E-Commerce Strategic Management**
 - **E-Commerce Initiatives**
 - **Organization and Responsibilities for**
 - ✓ Program Management
 - ✓ Application Management
 - ✓ Technical Infrastructure
 - ✓ Supporting Processes



What We Did - Where We Are

Phase I - Outcome

“E-Commerce is the use of enabling technologies that extend the core business activities of the enterprise into a virtual electronic community that is shared with customers, prospects, suppliers, business partners and employees.” (Audit definition)

- Understanding of E-Commerce activities and initiatives
- Focus on Internet transactions (B2B, B2C, and C2C)
- Accumulation of data for Phase II risk assessment

What We Did - Where We Are

Phase II - Enterprise Level Business Risk Assessment

- Identify important control objectives
- Assess the processes across the enterprise for meeting the control objectives
- Prioritize risks and compare processes to internal and external Best Practices
- Make recommendations for strategic and tactical remediation efforts

What We Did - Where We Are

Phase II - Outcome

- Over 80 formal interviews conducted with all key lines of business
- Formal risk assessments completed at enterprise level
- Complete understanding of E-Commerce activities, initiatives, and risks
- Helped educate Executive Management and A&E Committee
 - E-Commerce infrastructure within Wells Fargo
 - Helped take the “Mystique” out of E-Commerce and the Internet
 - Risks associated with E-Commerce

What We Did - Where We Are

Phase II - Outcome

Reputation / Brand Risk

Control Objectives

- Strategic Management
- Program Management
- Technical Infrastructure

- Application and Functionality Architecture
- Supporting Processes

Strategic:

- Effectiveness of planning process [*Time to Market*]
- Linkage with other strategic and business plans
- Adequacy of expertise and resources [*Intellectual Property*]

Credit:

- New demographics
- New geographies
- Changing customer relations
- Transitory customer
- New network of alliances
- *Instant Credit Decisioning*

Transaction:

- Non-credit risk
- Transaction integrity
- Customer authentication [*Digital Certificates*]
- System capacity & availability
- Monitoring and audit
- Backup and recovery
- Fraud risk

Compliance:

- Banking regulations
- Consumer and banking legislation
- Contracts with suppliers, outsourcers and customers
- Privacy [*Aggregation*]
- Legal

What We Did - Where We Are

Phase II - Outcome

Additional new risks include:

- Missing non-traditional changes in the competitive landscape
- Keeping pace with the number and/or size of identified changes
- Assuming more risk than planned in attempting to respond quickly
- Tarnishing reputation/brand due to missteps in the marketplace



What We Did - Where We Are

Phase II - Outcome

- **Results formally presented to Executive Management and A&E Committee**
 - Forward thinking recommendations - looking out the front window
 - Obtain Management “Buy-In”
 - What’s Working and What’s Not
 - Value Added



What We Did - Where We Are

Phase II - Outcome

EC Life Cycle

Informational (traditional products) → Transactional → New products and services → Value Chains → Next Evolution

■ Challenges and opportunities - areas to focus on

- Strategic Management
- Risk Management
 - ✓ Balance between speed to market and effective controls
 - ✓ Technology and security
- Communication regarding E-Commerce roles and responsibilities
- Due Diligence Process
- Contract/Vendor Management
- Intranet Processes

What We Did - Where We Are

Phase III - Implementation Objectives

- Assist management in evolving controls related to E-Commerce technology and business processes
- Determine appropriate tools and approach for maintaining on-going value-added review of E-Commerce activities by Audit



What We Did - Where We Are

Phase III - Outcome

Established an E-Business Audit Team

■ Full Time Focus to

- Proactively identify emerging E-Commerce risks
- Establish controls to minimize exposure and potential impacts
- Interface with lines of business
- Provide proactive value added services

■ Business and Technology Auditors

- Project team members (“A” team, experienced)
- Think “Outside the Box” - Non-traditional audit approach

Conclusion - Where We Are Going

Project Results - Enterprise Level

- Well received by management - proactive and value added
- Forward thinking - next level of strategic and risk management processes
- Assist Wells Fargo in maintaining its leadership role in developing, deploying and delivering secure and reliable E-Commerce products and services



Conclusion - Where We Are Going

Project Results - Audit Level

- **New E-Business Audit Group well received**
 - ✓ Need to deliver on our mission
 - ✓ Consultative versus traditional audit approach
 - ✓ Proactive and Integrated
 - ✓ Fully dedicated to E-Commerce risks at enterprise level
- **Partnership with Management**
- **E-Commerce Resource Center of Excellence**
 - ✓ Knowledge
 - ✓ Risk Management
 - ✓ Enterprise Level View

Closing Remarks

- If your organization is actively involved with E-Commerce and you don't know or fully understand the associated risks

You Are Behind the 8-Ball!
It Isn't Going to Slow Down!
Need to Address These Risks Now!

- If you are on top of these risks

Congratulations

- E-Commerce is as much about business risks as technology risks



Questions??

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