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## Disruptions Put Bank of New York to the Test

By SAUL HANSELL with RIVA D. ATLAS

**F**rom the roof of the Bank of New York ([news/quote](#))'s Art Deco headquarters, just down the block from the New York Stock Exchange, one can easily see why the bank has been at the uncomfortable center of Wall Street's recovery.

Before Sept. 11, nearly half of the bank's 19,000 employees, including those responsible for its main computer center, worked within view of the headquarters.

Now the vista is dominated by the still-smoldering rubble of the World Trade Center; just beyond are two dust-covered buildings that had housed 5,300 employees and the bank's main computer center.

The Bank of New York is woven into the fabric of Wall Street by more than just its location. It has played down the lending and deposit-taking functions of most banks and devoted itself to the plumbing of finance, accounting for and moving money and securities for traders, corporations and investors. Half of the trading in government bonds, for example, moves through its settlement system. As such, many Wall Street firms depend on the bank to ensure that their trading runs smoothly.

Despite a reluctance to criticize publicly as the financial world is striving to show unity, some traders at those firms say the Bank of New York has had a harder time recovering from the disaster than others, with system failures and delayed processing leaving some firms in the dark about their financial positions or waiting extra days for money or securities to arrive.

The Bank of New York, some say, was just too concentrated in Manhattan. The bank's penchant for lean operations, others surmise, may have kept it from having quite the systems or the manpower to recover quickly.

Now, stock analysts wonder whether the bank may lose business from clients who want to be less vulnerable in the future.

Thomas A. Renyi, the Bank of New York's chairman, acknowledges that there have been flaws in the bank's service. But he says the bank has bounced back from a nearly unthinkable disruption largely intact.

"We are proud of what we have done," Mr. Renyi said, from his customary spot at the end of a vast wooden conference table next to his office in the headquarters at 1 Wall Street.

"Clearly there were ups and downs," he said. "But our longstanding disaster recovery plans worked, and they worked in the extreme."

Until Sept. 11, no company had ever had to cope with a sudden dislocation of so many people and computer systems, the bank's executives point out. Indeed, it is a testament to contingency planning across Wall Street that so many companies were back in business only days after being displaced. But the Bank of New York, because its systems are so central to the business of all the other firms, was under extraordinary pressure to resume running at full speed. The places where it lagged became especially noticeable.

Mr. Renyi also gingerly suggests that the Bank of New York may have become a lightning rod for a wide range of complaints. Broken communication links were the bulk of the problems, he said, and it is not clear whether the fault, if any, lies with the sender, the receiver or the phone company in the middle. But those problems showed up when the bank fell behind on processing trades.

"We are a highly visible provider and have a highly vocal customer base," Mr. Renyi said.

Michael Mayo, an analyst at Prudential Securities, said that many of the bank's customers were understanding of its problems, for now.

"The Bank of New York had some bad luck and was given a grace period by their customers, but eventually the grace period will expire," Mr. Mayo said. "This is a big test for the Bank of New York's management. The spotlight is on the firm to get their problems fixed."

Bank executives argue that some of the criticism has taken on some aspects of urban legend, especially the notion that the bank was in disarray because the main backup for its computer center in Lower Manhattan was at another location in Lower Manhattan.

The bank says that all of its several computer centers in Manhattan were always set to revert to centers outside the city in case of emergency, and they did on Sept. 11. The bank also insists that its spending for disaster recovery has increased substantially in recent years.

In a few cases, though, the bank simply threw out its plan. The department that processes paper checks at its computer center, at 101 Barclay Street, was supposed to move to Cherry Hill, N.J. But with communication so disrupted, the bank did not want that operation so far away.

So the checks were sent to another check processing center in Lodi, N.J. But that center did not have machines needed for the bank's lockbox business, in which it opens envelopes that contain bill payments, both depositing checks and reading payment stubs to credit the right accounts. So the bank is only now catching up with processing some of those small payments.

Mr. Renyi said the bank had quite deliberately planned to have different levels of backup for different functions. The crucial government bond processing, for example, had a system in which a second computer was receiving and processing all the data going into the main computer, making it ready to pick up at a moment's notice, in theory.

The bank had no such system for its 350 automated teller machines. The rationale was that its customers would be able to use other banks' machines in case of a problem. That is what customers were forced to do for more than a week after the attack. (The bank absorbed fees imposed by other banks.)

As it turned out, though, even the expensive backup system was unable to get the government bond business up and running smoothly. That is largely because of problems maintaining the communications links that receive information on trades from its customers and report their positions back to them.

"In many cases our backup sites were dealing with our customers' backup sites," Mr. Renyi said. And though the bank had established communications lines in advance connecting these various backup centers, they often were of low capacity and typically had not been fully tested and debugged.

Even a week after the attack, the Bank of New York was having trouble with some crucial communications links, like its connection to the Government Securities Clearing Corporation, a central part of the government bond market. On several days that week, the bank had to drive computer tapes with its trades to G.S.C.C. offices. Though the trades were ultimately posted properly, clients were deprived of instantaneous reports on their positions.

"Everyone had redundant telecommunications facilities, but a lot of them turned out to be routed through the same phone company offices," said Thomas F. Costa, chief operating officer of the Government Securities Clearing Corporation. "We've all learned that when we have backup lines, we should know a lot more about where they run."

The bond market, including the Bank of New York, is getting back up to speed and working through its backlog of work. Still, it could be months before the Bank of New York can return to its computer center to 101 Barclay Street. The bank is planning to build a new data center to house its operations in the intervening months. The bank hired I.B.M. ([news/quote](#)) to help it figure out where to put the center and to look at other ways to bolster its backup systems. But Mr. Renyi said the bank still plans to move back to Barclay Street so it can stay close to its clients.

Last week, the bank said the disaster would knock \$125 million off its profits, although insurance will reimburse much of that. Less clear, however, is the long-term effect. Few analysts expect the

weeklong disruption in A.T.M. service to cause many individual customers to leave. But the big Wall Street firms are a more demanding group.

The only other player in government securities clearing is J. P. Morgan Chase, but State Street and Mellon Financial ([news/quote](#)) compete, as well, in other processing areas.

Mr. Renyi says companies will certainly talk about whether they want to rely on a single provider of processing services, just as the Bank of New York, he said, is looking at whether it was too dependent on some vendors.

But he remains optimistic that the bank will pick up some business that had gone to other banks.

"We can say that we are the only one that has been tested in an extreme situation," he said. "If there is someone that has a blue-chip recovery plan that has been proven to work, it should be the Bank of New York."

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