

## Preface

*E-Banking: Integrating and Managing Your Bank's Electronic Services* addresses issues related to implementation and management of electronic banking products and services. This manual takes into consideration that not everyone may be starting with the same level of experience or background in electronic commerce (e-commerce). Accordingly, the manual approaches electronic banking from the perspective of different audiences. To assist the novice, there are basic overviews of e-commerce in banking and insights about things to consider before jumping into electronic banking. For the more experienced user, references and examples are provided, ranging from security control considerations and privacy policy elements to specific examples of policies and procedures that provide a range of management resources. These will help you and your financial institution's management team design, develop, implement, and maintain a proactive risk management supervisory system for electronic banking.

The manual offers a variety of scenarios. For example, your situation may involve implementing an integrated electronic system approach for your entire institution or creating a stand-alone department or subsidiary to handle electronic banking business. In some organizations, only a limited amount of electronic banking activity is supported, and those activities are handled by one functional area. Regardless of the approach, challenges arise in establishing formal guidelines for an existing electronic banking business system and related processes.

### TODAY'S ELECTRONIC BANKING CHALLENGES

This manual focuses on basic challenges for financial institution management today: (1) How does a bank management team detail what electronic banking delivery channels may already exist within the institution? (2) If electronic banking systems exist, how does an officer or manager determine whether the controls or systems are working? (3) How can senior management ensure that internal controls systems will be created as needed, or that specific workflow situations change to address new electronic banking initiatives? (4) How does one build flexible controls with appropriate exception tracking systems?

These challenges are further complicated by changing financial institution structures, new regulatory requirements, increased competitive pressures, consolidation of operations, development of new or enhanced products and services, and changing technology. Meeting them seems to be an impossible task! However, within this manual are basic conceptual corporate governance guidelines within which — through staff accountability and individual understanding of the importance of managing electronic banking systems — even the most frequent changes or newest ideas can be implemented and managed. Supervisors and staff can ensure that an idea or concept is planned and that a related written procedure or specific control works.

E-banking is a financial channel that extends beyond a nation's borders. The Bank of International Settlements Committee on Payment and Settlement Systems issued a report titled *The Interdependencies of Payment and Settlement Systems* in June 2008 that underscored the following major points:

- The network of domestic and cross-border systems that comprise the global payment settlement infrastructure has evolved significantly over recent years. Similar to financial markets and economies worldwide that these systems support, there is an increasing wide array of complex interrelationships. This translates to the importance of the smooth, uninterrupted support of other related systems to ensure things run smoothly on any system.
- Safety of the global payment and settlement infrastructure necessitates that system operations, financial institutions, service providers, and users of systems have a keen awareness of payment and settlement

risks. Furthermore, it is incumbent upon all participants to play an active role in jointly managing these risks.

To address the payment and settlement risks in these worldwide payments that are built on numerous interdependencies, the committee's report highlights these broad recommendations:

- System operators, financial institutions, service providers, and users of systems should regularly review the risks that impact their operations, and the risks posed to other entities using the payment and settlement systems. The risk assessment frame should entail a review of the following:
  - Identification of the payment and settlement systems, and the institutions, service providers, users, and system operators that are:
    - Critical to operations and normal performance of the systems clearings and settlement activities
    - Parties of the interdependencies that could be materially affected by the inability to either provide services or conduct settlement activities
  - Analysis and documentation of the types of risks and range of risk impact related to these interdependent entities
- System operators, financial institutions, service providers, and users of systems should regularly assess whether the risk management tools they have instituted are adequate and sufficient to the related risks imposed on other entities or the exposure to risks created by other entities. These assessments should consider, for example:
  - Risk management tools to address operational or liquidity risks. Such risk management tools might include:
    - Business continuity arrangements that allow for rapid recovery and resumption of critical activities, alternative settlement channels to process key transactions (for example, offline capacity)
    - Liquidity response procedures that address market-wide stress conditions
  - The impact of implementing risk management tools and the potential for spreading disruptions to multiple interdependent entities
- Payment and settlement systems operators, financial institutions, third-party service providers, and users should periodically review on a regular basis their respective and interactive crisis management arrangements that would allow effective coordination.

When developing e-banking policies and procedures, one of the critical components to consider is the interdependency with other entities.

From the top down there must be an overall corporate commitment to a well-run, safe and sound electronic banking operation. Electronic banking initiatives cannot focus solely on immediately cutting costs, reducing staff, and short-cutting controls to save money in the short run. In the longer term, such an approach will quite possibly expose the bank to serious problems.

## **REGULATORY CONCERNS**

The proper development, implementation, and management of electronic banking systems has become a primary regulatory concern. The Federal Financial Institutions Examination Council (FFIEC) and each regulatory agency have detailed their concern through various issuances and interagency policy statements pertaining to electronic banking initiatives, security, proper controls, and emerging technology. Further, each agency has issued specific internal controls systems issuances regarding the need to enhance controls and support proper internal management systems for electronic banking initiatives. Examiners will be taking a much closer look at electronic

banking processes and performing a more detailed review of actual controls. This regulatory concern translates to a very real concern for bank directors and management.

Your bank may not be at risk today, and it may not even have a specific concern regarding its current electronic banking initiatives. However, various aspects of your next examination will focus on the management team's efforts to properly address risk management. These examinations will be checking your risk management approach, and examiners will also be correlating risk issues and exposures as they are detected throughout the organization. You can reduce your regulatory risk by taking time now to prepare a corporate approach to electronic banking initiatives.

Whether your institution is just starting the implementation process or has been performing electronic banking activities for months, the internal controls should be continually under review. It's also important to review plans for further changes in data flow or systems processes that result in electronic banking internal control or security changes, or even for moving toward a more automated internal controls exception tracking system. Analyzing your risk exposure, and making enhancements before the start of your next examination will undoubtedly have a positive impact on its results.

## **TOOLS FOR SOLUTIONS**

Risk management processes are critical focus points for successfully implementing and maintaining a viable electronic banking initiative. This manual offers insights and hints for both evaluating electronic banking opportunities and for detailing elements of sound risk management and developing internal control systems to address those risks. It also details other issues, including analyzing electronic banking initiatives design and implementation alternatives, assessing risk positions per type of electronic banking risk, developing formal electronic banking policy, and implementing systems to ensure ongoing proper control and oversight.

Electronic banking control monitoring worksheet questionnaires and internal audit procedures are also included in the manual. The control monitoring questionnaires are critical tools to assist supervisors in performing in-depth analyses and in planning action steps. Internal audit procedures and checklists will enable internal audit staff to make an independent review of electronic banking initiatives.

By using this manual, management team members will become aware of what electronic banking systems, important internal control system components, and development processes exist. They will also gain an understanding of the applicable regulatory issues and examination criteria.

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