



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Basel Committee Report Addresses The Supervisory Challenges of Electronic Banking

WASHINGTON -- In a report released today by the Electronic Banking Group of the Basel Committee on Banking Supervision, international bank supervisors agreed that the accelerating pace of technological innovation demands a cooperative approach to the supervision of electronic banking to avoid conflicting regulation among different countries and supervisors.

"Internet banking poses a special challenge for international bank supervisors because it enables banks to extend their customer reach beyond existing national boundaries," said Comptroller of the Currency John D. Hawke, Jr., chair of the Electronic Banking Group of the Basel Committee. "Coordination among supervisors will help ensure effective oversight of electronic banking in a way that does not impede innovation and meets public needs."

Today's report underscores that the delivery of financial services over public networks such as the Internet is bringing about a fundamental shift in the financial services industry. The changes raise new concerns and challenges for both bankers and supervisors in managing Internet banking systems, including security, integrity and availability of services.

Further, the Internet provides banks with substantial opportunity to extend their customer reach beyond their traditional boundaries, including across national borders. However, the nature of the open network and the fast evolution of electronic commerce expose banks to significant competition from other banks and non-banks. In addition, electronic delivery channels that operate across national borders can call into question existing jurisdictional authorization requirements and the regulatory processes.

In light of these challenges, the report calls for home and host country banking supervisors to take a cooperative approach to the supervision of Internet banking. For example, home country supervisors should provide host country supervisors with clear information on how they supervise electronic banking. As needed, home and host supervisors should coordinate their supervision of cross-border electronic banking activities. The report notes that such cooperative efforts, coupled with sound surveillance practices and guidance, may eliminate the need for entirely new sets of laws and regulations to govern electronic banking.

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In addition to cross-border issues, today's report also identifies risk management challenges related to Internet banking, including the need to ensure that bank management has appropriate technological expertise. Banks also need to develop sound strategies to use the Internet delivery channel to provide information and transactional service to customers. The rapid changes in technology and competitive pressure from other banks and non-banks expose banks to substantial risk if the planning and implementation of their strategy is flawed or not well managed.

The report also highlights security as another significant risk and calls for industry-wide standards for handling data electronically. Individual banks must also have a comprehensive approach to security.

The next phase of the Electronic Banking Group's work is to develop supervisory guidance that will establish a prudential supervisory framework for electronic banking. This guidance will provide the international bank supervisory community with a baseline for identifying supervisory expectations on how banks should assess, monitor, and control electronic banking risks, including those that arise from cross-border activities.

Supervisory guidance for national banks on electronic banking has been a priority for the Office of the Comptroller of the Currency for several years. Since 1996, the OCC has issued nearly a dozen separate pieces of guidance to national banks, including alerts and bulletins on technology risk management, Internet banking, information technology security, privacy, certification authorities, and stored value systems. This guidance is available at www.occ.treas.gov.

Today's report is available at www.bis.org.

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The OCC charters, regulates and examines approximately 2,300 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 56 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.