



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2001-18

FOR IMMEDIATE RELEASE
February 23, 2001

Contact: Robert M. Garsson
(202) 874-5770

Comptroller Hawke Notes Promise, Risks of Internet Banking

NEW YORK -- Comptroller of the Currency John D. Hawke, Jr., said today that while the OCC's goal in the area of Internet banking is to encourage innovation, the new technology poses special risks and challenges for regulators.

"Innovation is inherently risky, and it's the responsibility of regulators to help bankers manage that risk and preserve the safety and soundness of the banking system as a whole," Mr. Hawke said in a speech to a conference on electronic commerce sponsored by the Federal Reserve Bank of New York.

The OCC, he said, is taking a number of steps to help banks manage the risks associated with electronic banking and will soon issue guidance on account aggregation -- a practice in which vendors gather an individual's financial information from many Web sites and present it in consolidated form to the customer.

"We will offer guidance on how banks involved in aggregation can avoid such business catastrophes as system intrusions and denial of service situations; how they should structure contracts with third-party providers; and how they can develop effective strategies to ensure that their activities in this area comply with all the relevant law, including the privacy provisions of the Gramm-Leach-Bliley Act," Mr. Hawke said.

The Comptroller said that Internet banking involves some of the same risks that are common to all bank activities.

"Avoidance of credit concentrations, funds management, capital adequacy, contingency planning, internal controls -- the rudiments of good banking practice apply with equal force whether banks operate online or not, he said. "And I can assure you that our supervision expects no less rigor in minding these fundamentals from those that do."

Mr. Hawke cited three areas in particular in which Internet banking presents new or novel types of risks: security, vendor management and cross-border transactions.

-more-

While only a handful of financial institutions have reported online security violations, security considerations will become more acute as electronic banking becomes more widespread and complex, Mr. Hawke said.

Vendor management is a particular concern for Internet banks because so many rely on third party servicers to meet their technology needs.

“A handful of big service providers dominate the field, and if any of them were to experience problems, a large number of banks could be affected,” the Comptroller said. Banks should contractually define their responsibilities and those of their vendors for addressing risks. In addition, banks must also monitor vendor compliance with these contracts and develop contingency plans in the event that a vendor goes down.

Finally, Mr. Hawke said, Internet banking by its nature defies geographic boundaries and important questions are likely to be raised about which country’s supervisors have jurisdiction over remotely conducted cross-border offerings and transactions, and which laws within each country apply.

The most important international issues are being addressed by the Electronic Banking Group created by the Basel Committee on Bank Supervision. Mr. Hawke is chairing the Electronic Banking Group, whose members represent 17 central banks and bank supervisory agencies.

“While circumstances may occasionally force the adoption of new rules and restrictions, we believe that regulatory self-restraint is most likely to produce the best results for all concerned,” Mr. Hawke said.

Mr. Hawke noted that the Internet banking era has really just begun. “As 2001 began, 37 percent of all national banks were offering transactional online banking -- nearly twice as many as were offering it only 15 months earlier,” he said.

“I believe that the best days for e-banking lie ahead,” Mr. Hawke added. “Over the next five years or so, literally millions of bank customers will be coming on stream for whom the Internet has been a way of life since childhood.”

###

The OCC charters, regulates and examines approximately 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 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.

Related Link:

[- Speech](#)