

IT Handbook Presentation Electronic Banking Booklet


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- 1. Open music

IT Handbook Presentations

E-Banking




- 2. The E-Banking Booklet is truly representative of industry changes since 1996—the 1996 version of the IT Examination Handbook included only a brief discussion of Internet banking, and the terms e-banking or electronic banking weren't even used.

Industry Changes



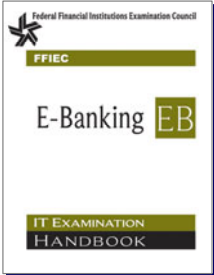
- 3. Yet, in the last few years, it has become commonplace for institutions to deliver financial products and services electronically.

Electronic Delivery



- 4. Consequently, this booklet provides standardized guidance to examiners, bankers, and service providers on the risks and risk management practices associated with e-banking activities.

Role of the E-Banking Booklet



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5.

Examination Procedures

During reviews of e-banking services, the examination procedures in this booklet will assist examiners in evaluating the adequacy of an institution's risk management efforts. The procedures will be especially helpful in institutions that are adding or expanding their e-banking products and services.

6.

Specific Perspective

A unique aspect of this booklet, as compared to others in the IT Handbook series, is its focus on risks from the perspective of the services and products delivered to customers. Other booklets in the series focus on risks from the perspective of the supporting technology.

7.

Booklet Definition***e-banking...***

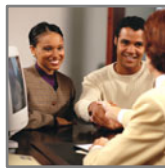
"the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels."

In fact, the e-banking booklet uses a very specific definition of e-banking to make this point clear. For the purposes of the booklet, e-banking is defined as *"the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels."*

8.

Services and Products

- **Account information**
- **Access to funds**
- **Business transactions**



This definition includes delivering services and products such as:

- Account information,
- Access to funds, and
- Business transactions and transfers through a public or private network.


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E-Banking Devices

- PCs
- PDAs
- ATMs
- Kiosks
- Telephones




These activities might take place using various types of intelligent interactive devices, such as:

- Personal computers,
- Personal digital assistants,
- Automated teller machines,
- Kiosks, or
- Touch tone® telephones.

10.

Internet-based Services



Although there is risk in using any of these remote-access devices for financial services, those that involve Internet access typically pose the greatest risk. This is because the Internet is such a widely accessible and public network. For this reason, the E-Banking Booklet focuses on Internet-based services.

11.

Internet-based Services






However, many of the issues discussed, such as identifying customers at remote locations and protecting the security and confidentiality of information, are common to both Internet delivery and to other forms of interactive communications. Consequently, the booklet also serves as a guideline for examining all types of e-banking services.

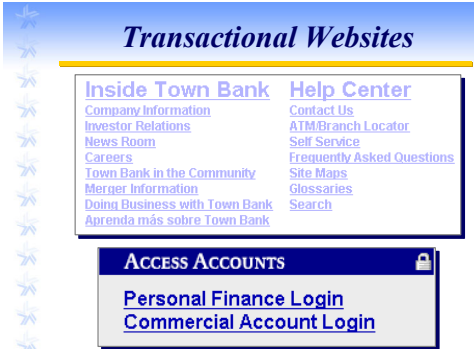
12.

Informational Websites

Inside Town Bank	Help Center
Company Information	Contact Us
Investor Relations	ATM/Branch Locator
News Room	Self Service
Careers	Frequently Asked Questions
Town Bank in the Community	Site Maps
Merger Information	Glossaries
Doing Business with Town Bank	Search
Aprenda más sobre Town Bank	

In its comprehensive introduction, the booklet further delineates between two different types of Internet activities:

- Informational websites and

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|--|---|
| <p>13. Transactional Websites</p>  | <ul style="list-style-type: none"> ▪ Transactional websites. <p>Each of these presents a separate set of risk issues for financial institutions.</p> <p>While a primary concern for informational websites may be liability for inaccurate information, a primary concern for transactional websites may be identity theft.</p> |
| <p>14. Transactional Services</p> <ul style="list-style-type: none"> – Retail – Wholesale | <p>Furthermore, transactional websites can provide two separate types of services:</p> <ul style="list-style-type: none"> ▪ Retail services and ▪ Wholesale services. |
| <p>15. Retail Services</p> <ul style="list-style-type: none"> – Account management – Bill presentment and payment – Account initiation – Wire transfers – Investment/Brokerage services – Consumer loans – Account aggregation | <p>Retail services include such things as:</p> <ul style="list-style-type: none"> ▪ Account management, ▪ Bill presentment and bill payment, ▪ New account initiation, ▪ Wire transfers, ▪ Investment and brokerage services, ▪ Loan applications and approval, and ▪ Account aggregation for individual consumers. |
| <p>16. Wholesale Services</p> <ul style="list-style-type: none"> – Account management – Cash management – Small business loans – Wire transfers – Business-to-business payments – Employee benefits administration | <p>On the other hand, wholesale services might include services such as:</p> <ul style="list-style-type: none"> ▪ Account management; ▪ Corporate cash management; ▪ Small business loan applications, approvals, and advances; ▪ Wire transfers; ▪ Business-to-business payments; and ▪ Employee benefits and pension administration for business customers. |

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17.

Unique Characteristics

- Perspective of customer services and products
- Integrated approach

Another unique aspect of the E-Banking Booklet is that it takes an integrated approach to the examination process.

18.

Integrated Approach

The booklet considers not only IT-related issues, but also looks at some of the ways that e-banking impacts compliance, asset management, and other safety and soundness issues.

19.

Integrated Approach

For example, compliance issues are major risk factors for institutions with informational websites; yet, these types of risks are non-technical issues that evolve from website content and delivery.



20.

Booklet organization

- Introduction

Upon thorough examination of the booklet's introduction, readers will find that the value of this booklet lies in the uniqueness of its perspective, rather than in the uniqueness of its content.



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21.	<p style="text-align: center;"><i>Electronic Delivery Channels</i></p> 	<p>Many of the topics are addressed more thoroughly in other booklets in the series, but the</p>
22.	<p style="text-align: center;"><i>Electronic Delivery Channels</i></p> 	<p>E-Banking Booklet pulls these topics together and presents them from the perspective of interactive electronic delivery channels.</p>
23.	<p style="text-align: center;"><i>Booklet organization</i></p> <ul style="list-style-type: none"> - Introduction - E-Banking Risks - Risk Management of E-Banking Activities 	<p>Following the introduction, the booklet is divided into two main sections:</p> <ul style="list-style-type: none"> ▪ <i>E-Banking Risks and</i> ▪ <i>Risk Management of E-Banking Activities.</i>
24.	<p style="text-align: center;"><i>E-Banking Risks</i></p> <ul style="list-style-type: none"> - Transaction/operations - Credit - Liquidity, interest rate, and price/market - Compliance - Strategic 	<p>The types of e-banking risks discussed in the booklet include:</p> <ul style="list-style-type: none"> ▪ Transaction or operations risk; ▪ Credit risk; ▪ Liquidity, interest rate, price, and market risks; ▪ Compliance or legal risk; and ▪ Strategic risk.

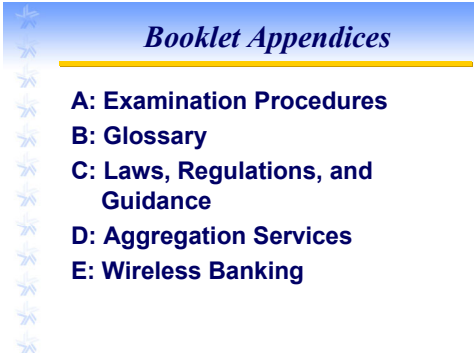
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25.	<p><i>Risk Management</i></p> <ul style="list-style-type: none"> - Board and management oversight - Managing outsourcing relationships - Information security programs - Administrative controls - Legal and compliance issues 	<p>Discussion of risk-management issues related to e-banking include:</p> <ul style="list-style-type: none"> ▪ Board and management oversight, ▪ Managing outsourcing relationships, ▪ Information security programs, ▪ Administrative controls, and ▪ Legal and compliance issues.
26.	<p><i>Standard Booklet Appendices</i></p> <ul style="list-style-type: none"> - A: Examination Procedures - B: Glossary - C: Laws, Regulations, and Guidance 	<p>The E-Banking Booklet contains the three standard appendices common to most of the booklets in the series:</p> <ul style="list-style-type: none"> ▪ Appendix A contains the examination procedures, ▪ Appendix B is a glossary of common terms, and ▪ Appendix C provides references to applicable laws, regulations, and other regulatory guidance. <p>The examination procedures do, however, warrant special mention.</p>
27.	<p><i>Examination Procedures</i></p> 	<p>First, the procedures take a one-tier approach, based on seven examination objectives. This one-tiered approach relies on other FFIEC IT booklets or member agency handbooks to provide more in-depth coverage of targeted areas, such as</p>
28.	<p><i>Examination Procedures</i></p>  <ul style="list-style-type: none"> • Information security • Continuity planning • Outsourcing • Audit • Asset management • Compliance 	<p>information security, continuity planning, outsourcing, audit, asset management, or compliance.</p>

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29.	<p style="text-align: center;"><i>Examination Procedures</i></p> <hr/> <ol style="list-style-type: none"> 1. Scope 2. Board and management oversight 3. Managing outsourcing relationships 4. Information security program 5. Administrative controls 6. Legal and compliance issues 7. Conclusions 	<p>The first objective is to establish the scope of the examination. Objectives two through six then follow the areas of risk management established in the body of the booklet:</p> <ul style="list-style-type: none"> ▪ Board and management oversight, ▪ Managing outsourcing relationships, ▪ Information security program, ▪ Administrative controls, and ▪ Legal and compliance issues. <p>Objective seven relates to the examiner's conclusions.</p>
30.	<p style="text-align: center;"><i>Examination Procedures</i></p> <hr/> <ul style="list-style-type: none"> – Examiner discussion points – Request letter items 	<p>The examination procedures appendix also provides two additional resources; first a section on discussion points for examiners and then a list of request letter items.</p>
31.	<p style="text-align: center;"><i>Discussion Points</i></p> <hr/> <ul style="list-style-type: none"> – Strategic plans – Impact on earnings and capital – E-banking software and service provider selection – Security – Internal controls and audit – Legal requirements – Vendor management – Business continuity planning – Insurance – Expertise 	<p>The <i>Discussion Points for Examiners</i> section recaps common issues examiners should consider when discussing e-banking plans and strategies with institution management. This list can also be of value to management of institutions just starting, or expanding, their e-banking products and services.</p>
32.	<p style="text-align: center;"><i>Request Letter Items</i></p> <hr/> <ol style="list-style-type: none"> 1. Scope 2. Board and management oversight 3. Managing outsourcing relationships 4. Information security program 5. Administrative controls 6. Legal and compliance issues 	<p>The <i>E-Banking Request Letter Items</i> section of the examination procedures lists items, from flowcharts to security plans, that examiners might need to request in order to carry out the first six objectives of the procedures.</p>

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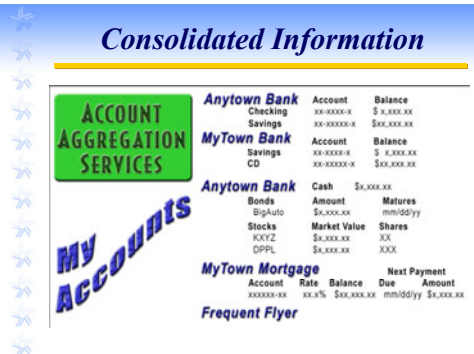
In addition to the three standard appendices, this booklet provides two additional resources. Appendix D discusses aggregation services, and Appendix E presents some of the issues associated with wireless banking.

34.



Account aggregation is a service unique to Internet banking. It is a process whereby the service provider gathers information from multiple websites and then presents that information in consolidated form to customers. Emerging capabilities relating to account aggregation include providing financial advice and shopping services that scan the web for particular products.

35.



Account aggregation allows a customer to pull together account, credit card, investment, and loan information from multiple websites into one consolidated webpage that provides easy reference. Financial institutions may act as both providers of aggregation services as well as targets from which aggregators extract information.

36.



Because few financial institutions have yet entered this new area, account aggregation is not covered in the main body of the booklet, but the appendix provides a good overview of some issues that institutions offering or contemplating aggregation services should consider.

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37.

Wireless Banking

Like account aggregation, wireless banking is not yet a very widespread service in the financial industry. However, it is a technology that's beginning to play a role in commercial enterprise. Thus, Appendix E explains some of the unique security issues involved with this particular form of interactive technology.

38.

New Challenges

Financial institutions continue to face traditional challenges, but e-banking poses a new set of risks. While offering customers convenience and easy access to information, e-banking also potentially increases institutional exposure to identity theft and unauthorized access to information.

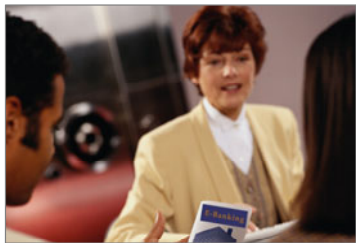
39.

Requires Vigilance

- Identify threats
- Protect...
 - Integrity
 - Confidentiality
 - Availability

Institutions offering e-banking products and services must be vigilant in identifying new and emerging threats and continually adjust their systems to protect the integrity, confidentiality, and availability of automated information.

40.

Conclusion

Over the next few years, e-banking services, and the many related topics covered in the E-Banking Booklet, will become just another part of traditional banking services. Until that time, the booklet serves as a valuable resource for examiners working with institutions that are just starting or are in the process of expanding their electronic delivery of products and services.