

Division of Supervision

MEMORANDUM SYSTEM

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Contact: Cynthia Bonnette
(202)898-6583

Notice Memorandum X

TO: Regional Directors

FROM: Nicholas J. Ketcha Jr.
Director

SUBJECT: Electronic Banking Examination Procedures Update

1. Purpose. The objectives of this memorandum are (1) to announce revisions made to the safety and soundness electronic banking examination procedures; (2) to describe the various levels incorporated into the electronic banking examination procedures; (3) to distribute a pre-examination letter and request list to be used in safety and soundness examinations where electronic banking activities are in place; and (4) to provide the locations where updated copies of the procedures may be obtained.

2. Background. The Division of Supervision issued a comprehensive package of safety and soundness examination procedures for electronic banking activities which became effective in May 1997. After one year of implementation, extensive efforts were made to review the procedures for consistency, integrity, and overall completeness. Such efforts included: surveying examiners, reviewing completed reports of examination, and independently field testing the electronic banking examination workprogram. As a result, several enhancements were made as described below.

3. Action. Safety and soundness examiners should begin using the revised electronic banking examination procedures immediately at institutions engaged in electronic banking activities. The narrative section of the electronic banking workprogram has been incorporated into the next update of the DOS Manual of Examination Policies which will be distributed in the near future. The electronic banking procedures have been updated and changes will be reflected in the next update to the ELVIS Modules. The glossary section remains unchanged and is still considered a relevant reference tool. The updated comprehensive package (narrative, procedures, and glossary) is also available on the DOS Electronic Banking home page and on the FDIC's corporate Internet home page.

The procedures continue to be organized into three levels of examination review based upon the sophistication of a bank's activities. However, Level I has now been re-defined to include non-sensitive electronic mail. The three level approach is now defined as follows:

- Level I procedures address information-only systems that may include non-sensitive electronic mail;

- Level II procedures apply to information transfer systems and sensitive electronic mail; and
- Level III procedures pertain to transactional systems. (unchanged)

The procedures continue to require that a technical review be performed by a specialist (i.e., electronic banking subject matter expert or information systems examiner) if the institution is involved in any transactional electronic banking applications (Level III), and/or certain information transfer activities (Level II). A technical review is also required if the institution maintains an information-only (Level I) web site on a computer that is directly connected to other internal systems. All three levels of review in the safety and soundness electronic banking examination procedures were designed to be completed by safety and soundness examiners. However, safety and soundness examiners are encouraged to consult with technical specialists as needed.

Attached is an optional pre-examination letter and request list that may be provided to bank management or used as a guide during a pre-examination meeting or during the pre-planning phase of the examination. This document replaces the former information request list that was included with the original electronic banking examination procedures. Examiners have flexibility in their use of the letter and request list and may choose to incorporate the listed items into a single all encompassing pre-examination letter. Examiners are reminded that requesting an excessive number of items can be burdensome on the bank and may reflect negatively on the examination team. Therefore, duplicate items that appear on other examination request lists should be eliminated. The items included on the attached list consist of policy statements, written procedures, system reports, insurance binders, contracts, and other documents necessary to complete the electronic banking procedures. The items are cross-referenced with the respective procedures that they address.

The updated electronic banking supplement to the DOS Manual of Examination Policies, revised examination procedures, pre-examination letter/request list, and glossary can be obtained electronically through the DOS Electronic Banking web site. To access the site from the FDICnet home page, select: Divisions and Offices, Division of Supervision, Examination Resources, DOS Electronic Banking Site, and Safety and Soundness Procedures. The procedures will also be included in the next update to the ELVIS Examination Modules. Questions can be directed to the regional electronic banking contacts or Cynthia A. Bonnette at (202) 898-6583.

Copies of this memorandum and attachments should be distributed to all field and regional office staff.

Attachment

Transmittal Number: 98-061



Request for Information by the

FEDERAL DEPOSIT INSURANCE CORPORATION

DATE XX, XXXX

Mr/s.(NAME), (TITLE)
The (BANK NAME)
(STREET ADDRESS)
(CITY), (STATE) (ZIP CODE)

Dear (TITLE) (NAME):

A safety and soundness examination of your institution is scheduled to begin on _____. A review of electronic banking will be conducted in the scope of that examination. Assistance on your part prior to the start of the examination will considerably lessen the burden and inconvenience that otherwise might be placed on you and your staff. Therefore, it is respectfully requested that the information described on the attached sheet be furnished to the examination personnel. Replies should be directed to the attention of the Examiner-In-Charge. Please reference all responses to the appropriate question number; if any request is not currently applicable, so state. Any requests for clarification or definition of terms should be directed to the Examiner-in-Charge.

(EIC NAME)
Examiner-in-Charge
(MAILING ADDRESS)
(PHONE NUMBER)
(EMAIL ADDRESS)

Attachments:
Request Items

REQUEST ITEMS: *Please respond only to those request items checked.*

- 1. Please provide the electronic banking contact's name, title, and phone number. In addition, please provide the organizational chart of electronic banking personnel including their job descriptions. (P L1)
- 2. Please list all electronic banking platforms utilized and system topology maps including servers, routers, firewalls, and other supporting system components. (P, A L1; P L2)
- 3. Copy of any risk analysis or reviews of electronic banking activity. (P L1)
- 4. Provide list of pending lawsuit/contingent liabilities with potential losses relating to electronic banking activities. (A L3)
- 5. Provide due diligence reviews of third party providers, contractors, support vendors, or any other parties. (P V L1)
- 6. Provide any system security reviews conducted by third parties. (P V L1)
- 7. Copy of all contracts/agreements with vendors, customers, third-parties, etc. (P, V L1; P, O, L L2)
- 8. Copy of insurance policies covering electronic banking activities such as blanket bond, liability coverage, errors and omissions, and any riders relating to electronic banking activities. (P L1)
- 9. Copy of strategic plan and feasibility studies (cost/benefit analysis), test plans and results, deployment plans and reviews relating to electronic banking activity. (P L1-2)
- 10. Provide any reports that measure or analyze actual performance to projections including performance in strategical areas such as deposit growth and technical areas, such as the ability to process the current level of transactional or support activity. (A L1)
- 11. Copy of general policies relating to electronic banking activity (defining bank's trade area, accepting account applications, compliance with Financial Recordkeeping and BSA requirements, etc.). (P L1; O L2; L L3)
- 12. Copy of specific policies and procedures relating to electronic banking operations for items such as new products, services, or delivery channel - i.e. directly related to specific platforms (for example Internet banking, phone banking, etc.) and applications such as email, bill payment, dollar limits per transaction, settlement guidelines, overdrafts, uncollected funds, reconciliation procedures, disclosures, foreign exchange, among others. (O L1-L3)
- 13. Copy of policies for reporting and responding to electronic banking platform system delays, problems, and log book. (P, A L2)
- 14. Copy of policies or written procedures relating to electronic banking security program. (O, L1)
- 15. Copy of the most recent system reports provide by electronic banking platforms used to track nature, volume, trends, and unauthorized attempts into the bank's system. (A L1-2)
- 16. Copy of audits relating to electronic banking. Provide external auditor's engagement letter and management letter including scope and findings. For internal audit, please provide audit schedule, scope, and auditors resume. (D L1-3)
- 17. List or report of authorized users and levels of access for electronic banking platforms, including officers, employees, system vendors, customers, and other users. (P, A L1-2)
- 18. Copy of exception reports, review of logs, and the name of the employee who reviews subject reports and when. (A L1-2; P L2)
- 19. Copy of the bank's back-up/contingency planning for electronic banking platforms. (A L1; P L2)
- 20. Copy of electronic banking training (for example products, services, informational) schedule with dates, attendees, and topics. Provide copies of any educational material and customer agreements. (P L1; A L2)

NOTE: References are provided next to each request item that indicate which area of review and level the item will be used to address. The following key explains the abbreviations used.

Key:

Planning and Implementation	=P	L1 = Level I
Operating Policies and Procedures	=O	L2 = Level II
Audit	=D	L3 = Level III
Legal and Regulatory	=L	
Administration	=A	
Vendors and Outsourcing	=V	