



Electronic Banking Examination Procedures

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February 26, 1997

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Examination Guidance on the Safety and Soundness Aspects of Electronic Banking Activities*

With the increasing emergence of electronic banking, and the associated risks to the safety and soundness of insured financial institutions offering such products and services, the FDIC has developed electronic banking examination procedures for its staff. The examination procedures, which address the safety and soundness aspects of electronic banking, were issued to FDIC examiners on January 29, 1997, and are available to insured financial institutions on request.

This guidance represents the first of the FDIC's comprehensive four-part approach to evaluating the wide-ranging risks inherent in emerging electronic banking activities. The three remaining parts of this effort include:

- A training program has been created to educate FDIC examiners on how to use the new procedures.
- Procedures addressing the technical aspects of electronic banking are being developed for information systems specialists.
- A program to develop internal technical expertise is underway.

Financial institutions are using emerging technologies to offer existing products and services through new delivery channels and, in some instances, to develop entirely new products and services. Examples include Internet banking, electronic cash, and stored-value card systems. Some of the risks involved with these emerging technologies are unique to the new delivery channel, while others represent general risks that are similar to those in traditional banking activities.

These new technologies are dynamic and raise a wide range of supervisory issues. The FDIC does not wish to impose regulatory restrictions that may hinder the development of innovative products and services. However, the FDIC does wish to promote the continued safety and soundness of insured financial institutions, which are increasingly engaging in electronic banking activities. During a September 1996 public hearing held by the FDIC on stored-value cards and electronic payment systems, many participants sought regulatory guidance on safety and soundness issues. In response, the FDIC is making its examination guidance available to insured financial institutions.

The electronic banking examination procedures were designed to be sufficiently broad that they may be applied to a wide range of electronic banking activities. As such, certain review points may not apply to financial institutions that use or plan to use less sophisticated systems. The

FDIC recognizes that risk-management programs should be designed in relation to the nature and complexity of an institution's activities.

The examination procedures focus on important safety and soundness functions such as planning, administration, internal controls, and policies and procedures, and are confined to non-technical strategic and administrative areas because they are designed for safety and soundness examiners. Technical aspects of electronic banking systems will be referred to information systems specialists. Information systems examiners will continue to be guided by the FFIEC Information Systems Examination Handbook, which will soon be supplemented by technical procedures addressing electronic banking.

To request copies of the electronic banking examination procedures, please contact the FDIC's Public Information Center (PIC) by:

- calling (703) 562-2200 or (800) 276-6003,
- faxing (703) 562-2296, or
- writing to the PIC at 801 17th Street N.W., Room 100, Washington, D.C. 20434.

Electronic copies of the procedures in WordPerfect version 6.1 may be downloaded from the FDIC's site on the World Wide Web ([http://www.fdic.gov](#)).

For further information, please contact your Division of Supervision Regional Office or Cynthia A. Bonnette in the Washington Office at (202) 898-6583.

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Distribution: FDIC-Supervised Banks (Commercial and Savings)

Note: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th St., NW, Room 100, Washington, D.C. 200434 ((703) 562-2200 or 800-276-6003)