

IMAG

INTERNATIONAL MANAGEMENT ADVISORY GROUP
“Experience, Solutions and Tools for Financial Institutions”

Forming a Bank

While each *de novo* bank is different depending on its size, scale and product offerings (and while there is a difference between *de novo* formation and acquisition of an ongoing bank), a normal consulting assignment generally includes the following steps, followed by the development of operating procedures.

Clients should note that it is essential that the operating procedures conform to the business and operations of the bank: they should not be developed until key determinations regarding management, operations, infrastructure and systems have been agreed. If the operating procedures do not conform, it can trigger safety and soundness issues during regulatory examinations.

The consultant who is developing the operating procedures should:

- Work closely with the Bank’s regulatory counsel to respond to issues raised by regulatory authorities regarding the Business Plan as the application process progresses;
- Assist the Bank’s senior management with the selection and hiring of key executives (e.g. CFO, Operations Head, Systems/IT, Treasurer, Controller, Head of Regulatory Reporting, etc.), and compile and review resumes and candidates for additional key positions;
- Assist senior management the selection of Core Banking and related systems [*note; most de novo banks seek to leverage vendor applications and vendor driven core banking to save cost and create immediate efficiencies*]:
 - Document detailed systems and user specifications for Core Banking Systems including:
 - General Ledger System
 - Product System
 - Treasury System
 - Credit and Risk System
 - Compliance Systems
 - Prepare RFI and RFPs and interview vendors to recommend the best solutions for the given product mix;
 - Conduct analysis and assist in the final system selection (note that, ideally, the Bank’s systems/IT officer, CFO and Operations Head should participate in the selection);
 - Assist in the review and negotiation of vendor application contracts;
 - Assist (and recommend) the selection of primary and backup systems hardware;
 - Assist in the planning of an on-site data center if decision is to run in-house;

- Assist in the identification of a backup site (if in-house primary data center) and ensure that data recovery, disaster recovery and business continuity plans are developed which meet bank regulatory requirements;
 - Establish operating and backup procedures.
- Outsourcing:
 - Determine which functions should be supported internally by bank staff, recommend functions which can be outsourced to third party vendors (i.e. systems, operations, record keeping) and review service level agreements for adequacy;
- Finance and Accounting:
 - Ensure that accounting policies and procedures developed by the CFO aligns with the product and operating platforms and systems;
 - Ensure that systems produce appropriate regulatory and management reports;
 - Develop requirements and processes for funding and liquidity;
- Operations:
 - Develop operations policy and procedures for internally supported products;
 - Develop management and operations oversight procedures for externally supported products and services;
 - Assist in the determining the requisite equipment and supplies.
- IT Infrastructure:
 - Working with the Head of Operations and Systems/IT, assist in the development and coordination of an IT plan which will support the Core Banking System and vendor applications.
- Human resources:
 - Develop HR Policy and Procedures Manual, including recommendations regarding general HR policies regarding benefits.
- Credit and Risk Management:
 - Develop Credit Approval policy and process;
 - Develop Credit Review and classification policy;
 - Develop Middle Office risk control procedures.
- Compliance:
 - Develop a compliance program and policy based upon applicable laws and regulations as they pertain to the products and services offered;
 - Develop processes specific to AML and OFAC monitoring including identification of supporting systems/ vendors;
 - Develop an initial compliance training program.

- Audit:
 - Assist in the identification and hiring or designation of appropriate internal audit staff.

- Facilities:
 - Identify any necessary Bank security systems which conform to regulatory requirements;

- Business Continuity:
 - Develop the Business Continuity Plan
 - Integrate the BCP Plan with IT Disaster Recovery Plan

- Written Operating Procedures:
 - Based on the information above, draft written operating policies and procedures. Normally, the written policies and procedures that are reviewed by regulators include:
 - General Management and Governance Policy Manual
 - Lending Activities Policies & Procedures
 - Treasury and Capital Markets Policies and Procedures
 - Operations & Customer Administration Policies & Procedures
 - Finance & Accounting Policies & Procedures (including Regulatory Reporting)
 - Credit and Risk Policies & Procedures
 - Market Risk Policies & Procedures
 - Operational Risk Policies & Procedures (including Outsourcing Monitoring and Maintenance)
 - Regulatory Risk/Compliance Policies & Procedures (including Anti-Money Laundering and OFAC compliance)
 - Information Technology & Database Policies & Procedures
 - Personnel Policies & Procedures
 - Internal Services Policies & Procedures
 - Code of Conduct/Ethics Statement and Related Policies & Procedures
 - Disaster Recovery & Business Resumption Plan
 - Internal Audit Policies & Procedures

For more information call:

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