
BUSINESS PLAN

FOR AN OFFSHORE BANK LICENSE

When applying for a banking license, **the business plan is by far the most important document filed with regulators.** The business plan for an offshore banking license argues your case, presents the people behind the bank, and demonstrates your understanding of international banking business.

In this article, we'll consider the elements of a business plan for an offshore bank license. This post is a compilation of information from regulators, the US Federal Reserve, and my personal experience.

This outline of the business plan for an international bank license was originally written for offshore bank licenses and international financial entity licenses issued by the US territory of Puerto Rico. However, it can be used as a guide for most bank business plans... especially offshore licenses (those outside of the United States where FDIC does not apply).

So, here is my business plan outline for an international bank license application.

EXECUTIVE SUMMARY

This section should give the reader a complete picture of the bank's business model, people, and target market. The executive summary is written first and updated after each section of the plan is drafted.

The executive summary should tell the story of the bank. While the rest of the document is technical or financial, the executive summary is to get the reader interested and draw them in. Tell the story of the project and the people behind it.

In order to write this section, I need to understand your target market, how you plan to operate the business, how many employees in Puerto Rico and elsewhere (if applicable), and what makes your bank different from the competition. You **MUST** present a unique use case so that regulators understand what niche you will fill in the market... what makes you better and different.

Remember that the business plan is being written for regulators. Also remember that the sole purpose of the business plan is to convince the regulators that they should give you a banking license. Thus, we need to explain how stable and professional you and your business model is. That you and the bank will not bring risk to the market.

The following should be covered in the introduction:

- Description of the Business
- Marketing Plan
- Financial Condition and Projections

I also include:

- Business Model - your niche or vertical and how it will be different from the competition.
- The Company (where I summarize the UBOs and key personnel)
- Related Companies (include an ownership chart)

- The Market (describes the target market - which countries the client will target, size and type of client (such as high net worth with \$1m minimum deposit), etc.)
- Products and Services
- Compliance and Due Diligence

BUSINESS SUMMARY

Describe the institution's business and any special market niche, including the institution's products, market, domicile, services, and nontraditional activities.

- Company Purpose

MARKETING PLAN

A marketing plan for an international bank license should provide detailed factual support that the institution has reasonable prospects to achieve the revenue projections, customer volume, and key marketing and income targets. The analysis should be based on the most current data available, and the sources of information should be referenced. This section should contain an in-depth discussion of the major planning assumptions for the market analysis, economic, and competitive components used to develop the plans, objectives, and the basis for the assumptions.

Product Strategy

List and describe the planned products and services of the offshore bank, including activities conducted through any subsidiaries. Discuss any plans to engage in any subprime or speculative lending, including plans to originate loans with high loan-to-value ratios and/or low debt service coverage ratios.

Discuss how the offshore bank will offer products and services over three years, indicating any variation in the different market areas or distribution channels, and include the time frame for the introduction and the anticipated cost associated with each.

If applicable, describe the institution's plans to engage in any secondary market/mortgage banking activity, including loan participations.

Describe the primary sources of loan and deposit customers and the major methods to solicit them. If using brokers or agents, provide full details of the nature and extent of all such activities and how they fit into the international bank's operations. Also, commissions must be covered in the financial model.

Market Analysis

Describe the intended target market and the geographical market area(s) for the international bank. Likewise, describe the demographics of the target market population (for example, age, education, and occupation).

Economic Component

Describe the economic forecast for the first three years of the offshore bank. The plan should cover the most likely scenario and discuss possible economic downturns. Indicate any national, regional, or local economic factors that may affect the operations of the offshore bank.

Competitive Analysis

Compare and contrast the institution's product strategy with its principal competitors in the target market(s). Include expected results in terms of relative strength, market share, and pricing. Discuss the overall marketing/advertising strategy, including approaches to reach target market through the marketing of brand, products, and services. Outline the specific medium that will be used, including timing and level of advertising efforts.

Discuss potential competition from other international banks in the target market(s).

SOFTWARE, HARDWARE, AND SYSTEMS

Summarize what hardware, software, systems, and tech will be deployed in your offshore bank's country of operation and online (cloud systems such as AWS). See my cost summary for a list of software providers. Note that regulators must approve any cloud systems that you deploy.

If will utilize blockchain or operate FinTech bank, will need to review FinTech regulations and integrate into the business plan. I highly recommend you avoid these terms unless absolutely necessary.

COMPANY STRUCTURE, LOCATIONS, AND FINANCES

If in a holding company structure, discuss the operations of the organization, including a brief review of the organizational structure and interaction between the institution and its affiliates.

Describe the extent, if any, that there are or will be transactions with affiliated entities or persons. Include terms of these transactions and the offshore bank's policy documents on related party transactions. Make sure these documents are compatible with the policies issued by your regulators.

Discuss the legal form and stock ownership of the institution and any investment in subsidiaries or service corporations.

For an entity that is already in operation, describe the present financial condition and current resources, such as office network, staff and customer base. Specifically discuss the strengths and weaknesses.

Describe the proposed location, office quarters, and any branch structure. Note that each branch must be approved by regulators.

Discuss any growth or expansion plans, including additional branches, other offices, mergers, or acquisitions of other offshore banking licenses or brokerages.

OFFICERS, DIRECTORS, SHAREHOLDERS AND KEY PERSONNEL

Provide a list of the organizers, proposed directors, senior executive officers, and any individual, or group of proposed shareholders acting in concert that will own or control 10 percent or more of the institution's stock. For each person listed, attach the Personal History Statement and complete a 3rd party background check for all parties.

That is to say, all officers, directors, shareholders, investors, and key persons must complete a 3rd party background check. In most cases, this means that every person named in the business plan must go through a background check.

The personal history statement should also include an audited Statement of Financial Condition (SFC) that includes explanatory notes and details that reflect each listed person's most recent financial condition (assets, liabilities and net worth). SFC must reflect the financial condition of the individual within 6 months before the date all required documents are submitted to regulators.

Provide copies of current passports of individuals that own or control 10 percent or more of the offshore bank's stock (if not already included with the Personal History Statement).

Describe the organizational structure and provide an organizational chart, indicating the number of officers and employees. Describe the duties and responsibilities of the senior executive officers. Describe any management committees that are or will be established.

Flow chart of holding structure and key personnel.

Discuss the startup team and future hires. This will include one or two paragraphs on each person associated

with the business. Their full resumes are in the appendix.

Summarize the banking and relevant experience of each key person. Focus on the banking operations and compliance experience of the founders and startup team.

Keep in mind that regulators will consider application application on the following terms:

- the financial reputation and standing of the applicant(s)
 - the applicant's record in business
 - the banking and compliance experience of the team, including officers, directors, shareholders, and key personnel. You must convince regulators that you can run a clean bank.
 - financial performance of affiliated companies (if any) for three years immediately preceding the date of the application. Audited financials preferred.
 - the character and standing of all the shareholders/directors or proposed directors of the applicant company
 - the financial net worth of each of the shareholders, associates or affiliates of the company applying for the international banking license. Investors must be able to prove that they can support the bank as it grows and through a downturn.
- Putting up capital of \$550,000 is just the first step. Then you have tier 1 and tier 2 capital, reserves, correspondent banking, etc.
 - Some countries, such as the Cayman Islands, require each and every shareholder to have a networth of \$10 million.
 - Must be able to put in \$2.5m to \$5m in the first two two three years in corporate capital. The law says \$250,000 in paid in capital on day one and a \$300,000 CD. Then the bank must have at least \$5 million in authorized shares. Investors must show how they will acquire these shares.

Discuss the institution's plans to address management succession, including any management training program or other available resources.

FINANCIAL OVERVIEW

- Start by summarizing the financial model. This is a detailed introduction to the financial overview
- Projections and Assumptions. Spell out the projections and assumptions that went into the financial model
- Financials of parent company or UBOs. Include the amount of capital that will be invested into the IFE in years 1 to 3.

FINANCIAL MANAGEMENT PLAN

Capital and Earnings

- Discuss sources of capital at inception, if applicant recently became operational.
- Describe the composition of initial and projected capital (e.g., percentage contribution of preferred, common shares, etc.).
- Discuss the capital goals and the means to achieve them.
- Discuss the earnings goals in terms of return on assets, net interest margin, or other profitability measurements, and summarize the strategies to achieve those goals.
- Discuss the plan for raising capital and for financing future growth.
- Discuss the adequacy of the proposed capital structure relative to internal and external risks, planned operational and financial assumptions, including technology, branching and projected organization and operating expenses. Present a thorough justification to support the proposed capital, including any off-balance-sheet activities contemplated, if applicable.

- Describe the debt service requirements for any debt that will be issued at the holding company level to capitalize the institution, if applicable.
- Summarize the dividend policy, if any.

Liquidity and Funds Management

- Discuss the institution's plan to monitor and control its liquidity risk, including funding sources (deposits, borrowings). Include holding company support, if any.
- Describe any plans to borrow funds from any financial institutions or other sources, including holding company support, if any.
- Discuss the type of investment securities the institution plans to purchase.

Sensitivity to Market Risk

- Discuss the institution's objectives, strategies, and risk tolerance for interest rate risk.
- Discuss how the institution will identify and measure interest rate risk.

Credit Risk

- Discuss how the institution will identify and measure credit risk.
- Describe the loan review program, addressing independence, scope, frequency, and staff qualifications.
- Describe the methodology used to determine the allowance for loan and lease losses.

FINANCIAL CONDITION AND PROJECTIONS

Provide three years of audited financial statements and the most recent unaudited interim financial statements of the ultimate parent company, if available.

Because of the requirement to provide audited financial statements, it is rare for an active business to apply for an offshore banking license. We usually recommend forming a foreign holding company for an international bank license application.

Provide the mandated capital requirements by the local banking or regulatory authority and the extent to which the institution meets, or fails to meet such capital requirements.

Provide quarterly balance sheet and income statement projections for the next three years of operations. The projected balance sheet should include details regarding the make-up of assets, liabilities (including deposits) and capital. The projected income statement should include the make up of revenues and expenses for the period covered.

Moreover, the financial projections should be presented in two ways: (1) showing all amounts in US dollars (\$) and (2) as a percentage of total assets.

Provide a detailed description of all of the assumptions used to prepare the projected statements, including the assumed interest rate scenario, start-up costs, activity volumes, expected returns, and expected timeframe to introduce each new product and/or service.

Provide the basis for the assumptions used for noninterest income and noninterest expense.

POLICIES

- Code of Conduct
- Know Your Client
- Due Diligence and AML Guidelines
- Compliance
- Anti Bribery and Anti Corruption

SUPPORTING DOCUMENTS

Addendum 1 - Resumes of directors, key personnel, and shareholders

Addendum 2- Due Diligence on Connected Persons

Addendum 3- Business Continuity Plan

Addendum 4- List of Services Requested Under Act 273 (Puerto Rico Bank License Only)

The services requested should be a subset to the total services an IFE can offer. The IFE should request ONLY those services it plans to offer in year 1 and year 2. In most cases, only services that will be offered in year 1 will be approved.

Note that regulators will attempt to reduce the number of services applied for. They want an IFE to be as focused as possible and only offer a small number of services. Therefore, you must make a strong case for each and every services you wish to offer.

Here is a complete list of services (this is specific to an International Financial Entity License from Puerto Rico):

1. Accept deposits from foreign individuals in accounts as well as demand or fixed term deposits and interbank deposits of funds, or otherwise borrow money from international financial institutions and any other foreign person;
2. Make, procure, place, guarantee, secure , bond or service loans;
3. Issue, confirm, give notice, negotiate or refinance letters of credit, including transactions for the financing of exports, even if the beneficiary is a domestic person;
4. Discount, rediscount, deal or otherwise trade in money orders, bills of exchange and similar instruments;
5. Invest in securities, stocks, notes and bonds of the Government;
6. Carry out any banking transactions allowed by the Act in the currency of any country, or in gold or silver, and participate in foreign currency trade;
7. Underwrite, distribute, and otherwise trade in securities, notes, debt instruments, drafts and bills of exchange issued by a foreign person for final purchase outside of the jurisdiction;
8. Engage in trade financing of import, export, barter and exchange of raw materials and finished products activities with domestic persons;
9. Engage in any activity of a financial nature outside of the jurisdiction which would be allowed to be done, directly or indirectly, by a bank holding company or by a foreign office or subsidiary of a United States bank under applicable United States law;
10. Act as fiduciary, executor, administrator, registrar of stocks and bonds, property custodian, assignee, trustee, attorney in fact, agent, or in any other fiduciary capacity;
11. Acquire and lease personal property at the request of a lessee who is foreign person, pursuant to a financial lease agreement that complies with the Regulations;
12. Buy or sell securities and provide investment advice in relation to such transactions;
13. Act as a clearinghouse in relation to financial contracts of instruments of foreign persons;
14. Organize, manage, and provide management services to international financial institutions, and other types of financial entities located outside of the jurisdiction, such as investment companies and mutual funds;
15. Engage in such other activities as are expressly authorized by the Regulations or order of the Director/Commissioner, or are incidental to the execution of the services authorized by the Act;

16. Participate in the granting and/or securing of loans that originate and/or are secured by the stated governmental authorities mentioned in the Act;
17. Establish branches outside of the jurisdiction, in the continental United States or its possessions, or in other foreign countries. Puerto Rico excludes the acceptance of deposits for these branches;
18. Establish a service unit or office in the jurisdiction, in which only specific operations related to the services of the international financial institutions shall be conducted;
19. Provide to other international financial institutions or to foreign persons outside of the jurisdiction, those services of a financial nature, as these are defined and generally accepted in the banking industry of the United States and the jurisdiction, and which are not listed in this section.
20. Accept properly collateralized deposits or otherwise borrow duly secured money from the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico;
21. Make or place deposits in, and otherwise give money on loan to, the Government Development Bank for Puerto Rico and the Economic Development Bank for Puerto Rico, any international financial institution, or any bank, including banks organized under the laws of Puerto Rico, and branches in Puerto Rico of banks that are foreign persons;
22. Participate in the granting and/or securing of loans originated and/or secured by any bank considered a domestic person, excluding transactions between any bank considered a domestic person and an affiliate entity;
23. Acquire classified or bad loans, as well as any personal or real property (tangible and intangible) that serves as collateral for such loans, from any bank considered a domestic person or from any branch of a foreign bank in Puerto Rico. This includes the execution of the collateral related to the aforementioned loans and the sale of property serving as collateral for said loans;
24. Finance, through loans or financial securities, projects in areas of priority for the Government of Puerto Rico in those cases designated as extraordinary by the Secretary of the Treasurer and the Commissioner;
25. Engage in rendering the following services: (i) asset management; (ii) alternative investment management; (iii) management of private capital investment activities; (iv) management of hedging funds or high risk funds; (v) pools of capital investment; (vi) administration of trusts that serve to convert different groups of assets into securities; and (vii) escrow accounts administration services; provided, that such services are offered to foreign persons.

Notes:

1. You must ask for #1, accept deposits from the general public to use the word "bank" in your name.
2. #25 would be used by a family office, investment fund, or a captive bank only. Standard international banks do not request this category of services.