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Statement by
Charles A. Vice
Director, Financial Technology and Access
National Credit Union Administration
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Subcommittee on Digital Assets, Financial Technology, and Inclusion

Fostering Financial Innovation: How Agencies Can Leverage Technology to Shape the Future of Financial Services

December 5, 2023

Chairman Hill, Ranking Member Lynch, and members of the subcommittee, thank you for inviting me to discuss the efforts of the National Credit Union Administration (NCUA) to encourage innovation in financial technology. I am Charles A. Vice, Director of the NCUA's Office of Financial Technology and Access.

Introduction and Background

I began my career with the Federal Deposit Insurance Corporation in 1990, serving as an examiner for 18 years. In 2008, I was appointed Commissioner of the Kentucky Department of Financial Institutions, a post I held for 14 years before joining the NCUA on January 1, 2023.

Having worked with financial regulators for over 33 years, I understand the financial services industry's vital role in the U.S. economy. The NCUA insures deposits at federally insured credit unions, protects the members who are not only consumers but also owners of credit unions, and charters and regulates federal credit unions. The strength of the credit union industry is based on the number and diversity of credit unions that meet the financial needs of their members. Safe, fair, and affordable access to financial services is necessary to ensure that local, state, and national economies grow and thrive.

During my three decades of experience, I have witnessed the resiliency of the credit union and banking industries in the face of challenges such as Y2K, the Great Recession, natural disasters, and the COVID-19 pandemic. I have also seen how technology can be both a boon and a bane. On one hand, technology can improve efficiency, facilitate better communication with members, and offer round-the-clock services. On the other hand, technology presents risks that must be managed, monitored, and mitigated. The NCUA understands this fine balance.

NCUA Office of Financial Technology and Access

The NCUA Office of Financial Technology and Access identifies barriers, challenges, and opportunities credit unions face in adopting and using technology to provide financial products and services to their members. Recently, the NCUA Board adopted the financial innovation rule, which provides additional flexibility for federally insured credit unions to use advanced technologies and opportunities offered by the financial technology sector.[1] During the notice and comment period, the proposed rule received supportive comments from the public and was finalized in September 2023.

In addition, the NCUA is committed to promoting effective and efficient uses of emerging technology. The agency has implemented several initiatives, including a Virtual Examination Program and a Digital Asset Working Group. With its Virtual Examination Program, the NCUA is exploring methods to use technology to improve its examination and supervision procedures. The NCUA's Digital Asset Working Group is an agency team that develops guidance for the credit union industry's use of distributed ledger technology, digital assets, and cryptocurrency.

The NCUA is also evaluating digital identification technology. The use of digital identification can be a reliable tool for verifying identity and is becoming increasingly popular with a number of states issuing mobile driver's licenses. Some credit unions have completed successful pilot

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[1] Financial Innovation: Loan Participations, Eligible Obligations, and Notes of Liquidating Credit Unions, 88 FR 67570-67601 (Sept. 29, 2023).

tests using digital identification and have updated their policies and procedures to incorporate this technology for onboarding new members.

While technology can offer benefits for member services, as well as back office and compliance functions, the agency is monitoring for safety and soundness, consumer financial protection, and the potential for bias in technology platforms and solutions.

Furthermore, the NCUA values the synergy between financial technology innovation and credit union inclusion. In 2020, the NCUA launched the ACCESS initiative—Advancing Communities through Credit, Education, Stability, and Support—which promotes financial inclusion using technology to achieve its goals. The NCUA is actively working to establish plans, objectives, and research to enhance financial inclusion through technology.

In 2024, ACCESS will spearhead an initiative to improve access to financial services in financial deserts. This initiative will highlight opportunities where the agency can assist communities where credit union services are limited, or certain segments of the population are underserved. This initiative will also identify outreach opportunities, ensuring that ACCESS's actions are timely, relevant, and impactful. Using this information, the ACCESS team will pilot targeted outreach for three communities in 2024. As part of this pilot, the NCUA will catalog and track the impact of the agency's financial inclusion efforts and identify additional gaps and opportunities to foster financial inclusion.

Third-Party Vendor Authority

In the context of financial innovation and technology, the NCUA's need for supervisory examination authority over credit union service organizations and third-party vendors is a noteworthy vulnerability for the system. Other independent entities, including the Government Accountability Office, the Financial Stability Oversight Council, and the NCUA's Office of Inspector General, have identified this deficiency as inhibiting the NCUA from fulfilling its mission to safeguard credit union members and the financial system. And it is the NCUA Board's continuing policy to seek third-party vendor authority from Congress.[2]

Credit unions increasingly partner with third-party vendors to enhance their products and services, make their programs cost-effective, provide access to expertise, and promote programs that may not be feasible if provided independently. The pandemic has accelerated the industry's shift to digital services, which has increased the industry's reliance on such vendors.

However, unlike the other federal banking regulatory agencies, the NCUA does not have supervisory authority over third-party vendors or providers, leading to a regulatory blind spot. This lack of oversight puts federally insured credit unions at a competitive disadvantage compared to insured banks, and members of credit unions at greater risk of a significant breach or technology disruption. As cybercriminals, foreign adversaries, and money launderers increasingly target third-party service providers to exploit vulnerabilities across the U.S. critical infrastructure sectors, there is more exposure to the credit union industry if the NCUA does not have visibility into these providers.

[2] 86 FR 59289.

If Congress reauthorizes third-party vendor authority for the NCUA, the agency will adopt a program that prioritizes examinations based on the risks related to the National Credit Union Share Insurance Fund, safety and soundness, cybersecurity, consumer financial protection, and Bank Secrecy Act/Anti-Money Laundering compliance. This statutory change would give credit union members the same protection as bank customers, resulting in improved customer service and enhanced protection. Further, the potential benefits of vendor authority include credit union access to NCUA examination information when conducting due diligence of vendors, fewer requests from the NCUA to credit unions to intervene with vendors experiencing problems, and fewer losses to the Share Insurance Fund.

Conclusion

Thank you again for the invitation to testify about the NCUA's efforts to foster financial technology and financial inclusion. I look forward to your questions.