

Cooperative Credit Union Association

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Creating Cooperative Power

August 31, 2020

Ms. Heather Phelps
Program Analysis Officer for Virtual Examination Studies
Office of Examination and Insurance
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3486

**RE: Cooperative Credit Union Association, Inc. Comments on
Strategies for Future Examination and Supervision Utilizing Digital
Technology**

BY ELECTRONIC MAIL ONLY: exammodernization@ncua.gov

Dear Officer Phelps:

On behalf of the member credit unions of the Cooperative Credit Union Association, Inc. (“Association”), please accept this letter relative to the request for information (“Request”) on Strategies for Future Examination and Supervision Utilizing Digital Technology, commonly referred to as remote examinations, issued by the National Credit Union Administration (“NCUA”) Board. In general, this Request seeks views on offsite examination and supervision through the use of emerging technologies to better utilize data and information. The Association is the state trade association representing credit unions located in the states of Delaware, Massachusetts, New Hampshire, and Rhode Island, serving approximately 200 credit unions which further serve over 3.6 million consumer members.

The Association applauds the outreach of the NCUA evidenced by this Request which arrives at an opportune time. While regulatory efforts were underway to modernize the examination process for federally-insured credit unions beginning in 2017, this Request allows for a comprehensive compilation of credit union experience directly from stakeholders who have recently participated in remote examinations during the unprecedented health pandemic. The Association acknowledges the swift action undertaken by NCUA last March to navigate the coronavirus crisis through implementation of a remote examination policy as part of its pandemic response strategy. Accordingly, it is most appropriate to move forward today with the Request as presented.

The Association solicited the views of its member credit unions through a variety of channels, including a survey on the Request. The statements within this comment letter are based upon the

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input of members. It should also be noted that over thirty percent of our member respondents have been examined remotely during this period of pandemic, and their insights are incorporated into the positions set forth in this letter.

Overview

The Association believes that remote examinations have great potential to enhance safety, soundness, and efficiency¹, as well as to reduce NCUA disruptions to credit union operations. The majority of survey respondents support the NCUA's efforts to increase its use of remote examinations, but such support is not unconditional. Remote examinations must be structured and administered with the utmost care and with adequate risk mitigation from all stakeholders: both NCUA and credit unions. Respondents noted important issues that must be addressed as the NCUA moves forward with expanded use of remote examinations which can be categorized into several major areas and which provide the basis for this comment letter:

- Safeguarding the privacy of their members' financial data;
- Protecting all data submitted remotely from cybersecurity threats or other security problems;
- Standardizing the process for submitting data to NCUA while customizing the examination experiences for each credit union's unique situation;
- Enhancing communications between examiners and credit union management;
- Training for examiners and for credit union personnel, to maximize efficiencies associated with remote examinations and to minimize risks involved with sending and receiving critical data;
- Coordinating with state regulators to mitigate any additional examination requirements for state chartered credit unions resulting from different examination approaches subject to dual regulation;
- Developing clear guidance on the NCUA's procedures and expectations to benefit both examiners and credit unions regarding remote examinations;
- Tailoring improvements to the Call Report to reflect remote examinations;
- Refraining from incorporating a review of a credit union's financial education; and
- Helping small credit unions overcome unique concerns and utilize technology to participate in remote examinations.

Respondents unanimously agreed that NCUA can do more offsite work without compromising safety and soundness. Significant member agreement also exists for the likelihood that supervision and/or operations would be improved by utilizing more offsite examinations. Beneficial impact noted, in the order of consensus, includes:

¹ One member expressed concern about the remote process resulting in a reduced opportunity to discuss areas of concern that have been easily resolved historically when an examiner is physically present.

- Reduce NCUA costs²;
- Less supervisory disruptions³;
- Reduce credit union costs;
- Favorable impact on joint supervisory examinations;
- More timely delivery of reports of examination;
- Improve safety and soundness; and
- Provide regulatory relief.

Safeguarding the Privacy of Credit Union Members' Financial Data

Even though the NCUA's review of personal financial information may be limited, members noted that any data sent electronically as part of a remote examination should not be tied to the identity of a credit union member. Encryption of data to and from the NCUA is often cited by respondents as a useful tool to help ensure data is not jeopardized. Members also urged that personal financial information should not be sent unless absolutely necessary for safety and soundness reasons as they relate to a particular credit union. NCUA is encouraged to incorporate the use of member keys that would replace member numbers, social security numbers, and other member identifying data.

It should be noted that remote working technologies and practices have been widely adopted on an accelerated basis due to the pandemic based on virtual desktop infrastructure and cloud based delivery models which enable remote access to required examination information without compromising controls.

Protecting Data Submitted Remotely from Cybersecurity and Other Threats

While protecting members' financial data is critical, members remain concerned that any data an examiner reviews should not be subject to security lapses or cybersecurity incidences at the credit union or within NCUA, to the greatest extent possible. How information is collected, transmitted, received, stored, and disposed of are all significant issues that NCUA must address and adopt applicable protocols before expanding the use of remote examinations. It was suggested that NCUA should employ multi-factor encryption and security codes when communicating with credit unions. NCUA should enforce the use of portals and secure email. The portal should be the only mechanism utilized when transferring data.

Members also raised concerns about the security of the portal and encourage NCUA to provide assurances that the portal is safe or to take steps that will result in the secure transmission to and from the regulator. The creation of a secure portal to access confidential information outside AIRE is essential for policies, procedures, and other intellectual property matters. Education by NCUA should be provided on the portal, its use, and what information should and should not be sent. Concerns may be based on a lack of awareness of NCUA's internal security measures to

² A reduction in examiner travel time and associated costs were noted.

³ Some respondents commented that the remote examination strategy will yield more consistent requests for information. Several respondents pointed out that regulators commonly request data then ask for more on site.

support remote examinations. Respondents have, however, raised a legitimate issue, and additional information on NCUA's own security procedures and measures is needed. To further support credit unions' security and to minimize cybersecurity challenges, NCUA should establish a standard expectation and adopt a risk mitigation process similar to that used by credit unions: do not use personal financial information unless needed; destroy data after a specified period; utilize background checks on employees; and include other credit union cybersecurity mitigation efforts to prevent data loss. Emphasis should be placed on safe, remote practices when accessing internal data.

Standardizing the Process for Submitting Data to NCUA and Other Improvements

Members that experienced recent remote examinations reported different experiences in terms of efficiency. Positive comments reflected that the examination could focus more on the safety and soundness agenda rather than on logistics. The off-site exam grants the ability to pull the information together and provide it in a secure mode with less interruption to daily operations. Other comments indicated that the remote examination allowed for a more expedient review. In contrast, other comments revealed a process that was not well organized and cumbersome, largely due to the massive amounts of documents that were uploaded. Members recommended that both the credit union and the examiner should be able to monitor the uploading process better and that the credit union could be able to see when the examiner opens a document. This simple step would serve to reduce any unconfirmed receipt of data as well as incorrect regulatory assertions of nonreceipt.

Several respondents also provided insight into the time required in using the file transfer portal. A more robust file upload component to speed up transmissions is overdue. In addition, the timing of requested data should be improved. Sample loan files are not requested until after the examination starts. Respondents believe that it would be helpful to provide the AIRES files well in advance of the examination so that NCUA could select test files and the credit union would have more time to coordinate that effort. It is also acknowledged that the ability to review sample selections of loans and shares digitally is another challenge. Use of specific technology and the corresponding ability to grant access to such information remotely is a hurdle.

The inability to provide auditors with digital access to examination reports is another challenge. Previously, paper copies were provided on-site for review and returned without copies distributed. Under a remote process, third party auditors cannot review these reports as they are unavailable digitally.

An overarching view from respondents is that NCUA should develop standardized information requests, such as through checklists. While some members noted that data such as loans files, policies, asset liability data, annual financial statements and reports from external auditors would be routinely requested, the checklists should vary amongst credit unions depending on the operations of each institution and could be tailored to the size and complexity of each credit union. This practice could also serve to ensure the appropriate level of qualified examiner review.

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The focus of information requests should be the Call Report and what is needed for a safety and soundness review. Multiple requests for information may be necessary from time to time, but they are disruptive and should be minimized. The objective should be a process in which the credit union is informed in advance of the data that is needed and can provide the data through a secure, multi-factor authentication system that allows the credit union and the examiner to monitor the process until all documents are received, opened and reviews completed.

The Request also addressed the issue of available resiliency tests, as well as new or emerging technologies, to improve remote examinations. The emerging cloud delivery models enable proactive resiliency testing through tools such as Amazon Chaos Monkey, which by using automation, works to cause failures in the environment for the purpose of proactively identifying resilience gaps. These testing methods provide an efficient way to identify in advance resiliency design gaps so that they are no longer ticking time bombs in a credit union's systems/process/controls. Used in conjunction with policy-based and automation-enabled systems builds, credit unions can achieve better resiliency and faster time to benefit from technology investments.

The emerging use of Robotic Process Automation (RPA) enables credit unions to automate and replicate audit and exam efforts to the point where it may be feasible establish an Auditor/Examiner Assurance Practice which potentially could be run daily to improve Control Compliance and Performance with evidence that auditors and examiners could leverage to expedite exams. Further, the Artificial Intelligence (AI)/Machine Learning (ML) technologies could be run and trained to review the Control Compliance and Performance evidence to potentially identify patterns that are feasible to identify with current practices. The digitization of these processes allows broader aperture of data and finer resolution of data for identifying patterns than traditional methods, which have potential to improve the overall outcomes.

Finally, respondents commented on the possible burden for credit unions to provide documents and data to NCUA on a prescheduled basis throughout the year. A majority of respondents generally support providing information more frequently to NCUA. Some members noted that from a resource standpoint, providing information throughout the year could be beneficial because all data would not be required to be compiled at the same time. Yet, the expanded frequency also poses a problem as a specific end point is not used and reviewing data from multiple time frames would likely be cumbersome and confusing. Any possible burden is a function of the scope of the document and data request. Credit unions with limited staff responsible for multiple jobs will likely find additional, continuous work not to be prudent throughout the year. Respondents noted that multiple disruptions will always be worse than a longer, single disruption. Under these circumstances, it may be more efficient to know that an examination is scheduled and to prepare for that workload. Monitoring Call Report information on the current schedule is preferred as it can provide significant insight as to how a credit union is performing.

Customizing the Exam Experience for Each Credit Union's Unique Situation

Members observed that providing credit unions with a checklist of the documents the examiner will be reviewing with sufficient time for the credit union to assemble the information is essential. It should be noted that while checklists could facilitate the efficiency of the exam, they should not be used by examiners to obtain the same documentation from all credit unions simply to complete a checklist regardless of differing fields-of-membership and product offerings. Requests for copies of Call Reports should be eliminated. Examiners should be encouraged to implement remote examinations in a manner that reflect important differences amongst credit unions.

Furthermore, members suggested that there may be circumstances which may disqualify or preclude a credit union from participating in virtual examinations or where most of the work is completed off-site: the absence of a paperless environment; limited use of technology; internet bandwidth availability in certain rural areas; repeated negative income without demonstrating signs of improvement; instances where management needs to be assessed in-person; staff layoffs or remote work schedules; and whenever material safety and soundness concerns arise, including but not limited to, conservatorship.

For federal credit unions serving low-income, underserved, and unbanked communities, the availability and combination of HMDA and AIREs information is readily available now and NCUA should find a way to use it instead of placing additional burdens on credit unions. NCUA should also find ways to encourage these credit unions to partner with fintech organizations to allow them to provide more broad and competitive services, such as technologies to help with any language specialties, to benefit members.

Enhancing Communications Between Examiners and Credit Union Management

Each examiner has a different vocabulary and so does every credit union. One of the downsides that respondents noted with remote examinations is the real time communication barrier it creates for efficiency because in-person discussions, which provide a free flow exchange of data, views, and solutions, are not possible. The lack of communication or understanding of what is sought by an examiner generally increases a back and forth dialogue and/or mining for information not needed. Respondents pointed out that on-site dialogue is quicker and often contains different information than remote dialogue. Telephone conversations remain challenging to discuss the calculation of the allowance for loan losses or asset liability management software.

Scheduling Zoom or similar videoconferencing sessions are invaluable as they permit the same interactions as if the examiner were on-site. They remain the preferred method by members for remote examinations; are closest presently to the value found in seeing examiners, reading body language and facial expressions; and help to maintain solid communications between examiners and credit unions. Whenever possible, using videoconferencing to discuss examination findings and documentation issues should be an integral part of the remote process.

Tailor Improvements in the Call Report

While not directly the subject of the Request, the Call Report received several comments from members in connection with facilitating an efficient remote examination outcome. The Association is a strong proponent of NCUA's efforts to review and streamline the Call Report. Members strongly support use of the Call Report as necessary to the examination process but continue to question whether the Call Report can be further improved and reduced.

In the context of remote examinations, members believe that the Call Report should be the focus of the examination. Information and data gathered must focus squarely on what is necessary for regulators to determine safety and soundness. To reduce on-site time, members envision NCUA using technology, such as Power BI, with Call Report data to identify trends that might indicate an issue on the horizon or even calculate risk concentrations across the industry and locate anomalies or explanations.

The Association welcomes further efforts by NCUA to continue improving the Call Report and ensure that its data collection concentrates only on what is needed to assess safety and soundness and is no longer outdated by requiring legacy information from year-to-year.

Coordination with State Regulators

Increasing NCUA's use of remote examinations can result in a double edge for state chartered, federally-insured credit unions. While they could help improve the efficiency of the examination process, they also could result in additional and inequitable burdens if NCUA does not coordinate closely with state regulators. Survey respondents strongly agreed that more synergy with state regulators on virtual examinations will be needed. All regulators should agree in advance to the use of common data request lists⁴, security measures, guidance, and other issues significant to remote examinations. The impact on the scheduling of remote examinations cannot be underestimated.⁵

The Association remains unequivocally opposed to a more onerous examination burden on state chartered credit unions as a result of the lack of coordination between NCUA and relevant state supervisory authorities. One respondent noted that during their last exam, only a very few state examiners had access to the NCUA portal. NCUA is strongly encouraged to work with state regulators to ensure that dual regulator objectives involving remote examinations are met with the least amount of burden for state chartered credit unions.

⁴ Multiple examination request lists are currently used: information technology, capital markets, and one for all else. There is overlap between the lists and the numbering sequence is different for the same information requested on multiple lists. This causes confusion and extra work to save the same information in different locations with different file names.

⁵ Members commented that state regulator and NCUA schedules frequently do not align causing examinations to endure for months and delays in the issuance of final reports.

NCUA Should Not Review Financial Education Efforts

One of the inquiries in the Request relates to measures and documentation to be collected to assess credit union financial education efforts. Respondents strongly believe that NCUA should not assess credit union financial education programs as they are unrelated to safety and soundness. NCUA's focus under the Federal Credit Union Act and its mission statement is to ensure the nation's system of cooperative credit remains safe and sound. It is acknowledged that financial education is an important part of the DNA of credit unions. Yet while credit unions are on the forefront of providing financial education and facilitating financial literacy for their members, efforts vary widely and the majority of respondents believe that these efforts should not be subject to additional reporting and regulation using virtual examinations. Examiner review should focus on credit union safety and soundness.⁶

Small Credit Unions Have Unique Concerns and Should Be Eligible for Assistance to Utilize Technology to Participate in Remote Examinations

Members of all asset sizes expressed significant concern about the impact of remote examinations on smaller credit unions and their ability to effectively participate if they do not have the staff resources or access to technology necessary to provide the requested information. The Association strongly believes that smaller credit unions that are nonetheless performing well for their members should not be left out of the remote examination approach. NCUA should consider allowing such credit unions to obtain grants or other assistance in order to develop the capabilities needed to be examined remotely.⁷

In using technology to help low-income designated credit unions and minority depository institutions, members suggested a more equitable award of grants and assistance. Caution should be exercised against having benefits exhausted by top CAMEL-rated credit unions, who may likely already be on the edge of implementation, before others have a chance to do so.

Other small credit union concerns include a significant time and documentary burden to print large amounts of paper first, followed by scanning and emailing.⁸

Third Party Information Should Not Be Subject to Examiner Review

In response to NCUA's inquiry about the use of information credit unions provide to third parties, a majority of respondents do not support NCUA having access to such information, except for financial statements prepared by outside auditors. Some respondents believe changes to current contracts would be necessary to even allow this activity.

⁶ One respondent noted that any shift to digital access should include all facets of the business and operations of credit unions including outreach. Another believes that the focus on financial education information should be used to hold the industry accountable.

⁷ One small credit union respondent noted that a virtual process is easier as having sufficient dedicated space during COVID-19 presents additional challenges, together with handling paper and meeting other safety protocols such as talking at a distance.

⁸ One small credit union emphasized the waste of paper during the process and the challenge of providing Board of Director minutes and documents for the previous 14-month period.

Requests for information are more appropriately made directly to credit unions. Third parties do not know how a credit union uses numerous data fields. In addition, one source of information reduces confusion and duplication. Finally, NCUA possesses authority in the regulation of credit union service organizations and has not yet provided the legal basis for access to other third party information.

Training for Examiners and Credit Union Personnel

Association respondents repeatedly recommended that comprehensive training be provided to examiners and be made available to credit unions regarding the process of a remote examination, how it differs from an on-site review, how it is similar, what is the core of the review, the general time frame and how the communication of examination findings will be handled, including how to maximize videoconferencing. Materials developed for examiner training should be available online at NCUA's website for credit unions to use and review.

The Association also encourages NCUA to host webinars and produce instructional videos for credit union management and boards of directors. Each of these efforts should go a long way toward helping examiners and credit unions implement remote examinations efficiently and in the least intrusive manner possible.

The Need for Clear Guidance

In addition to training, and complementary to it, clear and concise guidance is essential to achieving effective remote examinations that promote safety and soundness. The Association strongly encourages NCUA to develop and issue guidance on remote examinations for examiners as well as for credit unions, such as in the Examiner's Manual and Letters to Credit Unions. The guidance could be distributed in conjunction with training and should cover a range of topics including security, document uploading and receipt, and NCUA expectations for a remote process. How credit unions dispute findings or other issues of concern relative to the examination should be addressed for all stakeholders. Undoubtedly, many aspects of a remote examination are handled similarly to an on-site review, but they are sufficiently different to warrant specialized training and guidance focused on the remote process. The enhancement of a remote examination policy by NCUA is warranted.

Agency/Credit Union Task Force is Needed

The implementation of the broader use of remote examinations may very well present issues of concern or positive developments that are currently unforeseen. It would be very useful if NCUA established a framework to address future burdens and benefits that will allow the remote process to evolve in a manner that is useful to examiners and credit unions. The Association respectfully requests the Board to consider forming an NCUA/credit union task force to help monitor the implementation of remote examinations from the standpoint of emerging issues and work to help develop possible solutions to challenges as they may arise.

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Conclusion

The Association supports NCUA's planned increase in remote examinations. However, there are a number of concerns that NCUA needs to address before it expands the remote process. Above all, communication during any examination process is the top priority and questions as well as answers must translate well using technology. The Association encourages NCUA to resolve these issues early in the process of a wider employment of remote examinations. Its use may result in an improved examination process, which will benefit NCUA, credit unions, and members. The full benefits of remote examinations will not be achieved without a plan for robust implementation that responds to credit union concerns.

Thank you for the opportunity to share the views of the Association's members on the Request. If you have any questions about the recommendations set forth in this comment letter or require further information, then please do not hesitate to contact the Association at govaff-reg@ccua.org.

Sincerely,



Ronald McLean
President/CEO
Cooperative Credit Union Association, Inc.

RM/mac/kb