

NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA**

DATE: March 2001 **LETTER NO.:** 01-CU-04
TO: Federally Insured Credit Union
SUBJ: Integrating Financial Services and Emerging Technology

Dear Manager and Board of Directors:

The purpose of this letter is to encourage you to consider the benefits of offering Internet-based electronic financial services to your credit union's membership. Many credit unions have recognized the benefits of emerging technology and are integrating it into their operations as an important element of their business model.

Internet-based electronic financial services increase convenience for members, enable credit unions to offer more products and services, and create opportunities to serve more members than ever before. Using the Internet, members are now able to apply for loans, monitor account transactions, transfer funds, pay bills, etc. Such services are flourishing, and segments of credit union members are seeking these contemporary services at a reasonable price. Credit unions need to consider their membership base, demographics of existing members, future field of membership, and overall strategic business models when considering the competitive demands of Internet-based electronic financial services.

Some credit unions are making substantial progress with integrating financial services and technology. As of June 2000, 1,353 credit unions were offering Internet-based transactional services to their membership. This represented a 38.49 percent increase from year-end 1999.

Credit unions can face impediments, such as lack of managerial technical expertise or financial resource limitations, preventing them from keeping pace with rapidly changing technology. Consequently, many credit unions rely on information service vendors and credit union service organizations to pool expertise and resources.

As with all new services, particularly one so dependent on technology controls, credit unions must exercise proper due diligence before devoting resources to implementing any electronic financial services. There are several areas that cannot be overlooked, such as, but not limited to: technology planning, staffing needs,

network and application controls, auditing, regulatory and disclosure issues, and member support.

NCUA intends to work with the credit union community to ensure healthy credit unions remain an attractive financial services option for credit union members and the American public.

Recently, we added a new section to our website titled, "Information Systems and Technology (IS&T)," which can be reached through a link on our Home Page at www.ncua.gov. This area contains resource information related to technology issues, such as Letters to Credit Unions, Regulatory Alerts, Presentations, etc. This section will be updated periodically to ensure it contains timely and resourceful information.

Recently, we released NCUA Letter to Credit Unions 00-CU-11, titled "Risk Management of Outsourced Technological Services," outlining several areas for credit unions to consider when relying on third parties that support technology-related activities.

Public trust is a fundamental element of any service provided to members via the Internet. You are encouraged to seek ways to build member confidence through privacy statements, encryption controls, formalized guidelines, etc.

Last summer, our examiners began reviewing IS&T issues in credit unions. These reviews focus on a credit union's ability to manage the risks associated with e-commerce activities. NCUA is currently developing a self-assessment guide to assist credit unions with managing the risks associated with Internet-based electronic financial services. This document will be distributed to the credit union community and will be made available on our website.

We encourage you to carefully consider the benefits of offering electronic financial services to the credit union's membership. Ultimately, when the risks associated with Internet-based activities are properly managed, credit unions can position themselves to compete more effectively in a technology-driven marketplace.

If you have any questions, please contact your examiner, NCUA regional office, or state supervisory authority.

Sincerely,

_____/s/_____
Dennis Dollar
Acting Chairman
National Credit Union Administration Board