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## Media Advisory

FOR IMMEDIATE RELEASE

### NCUA Vice Chairman Hood Discusses Electronic Payments and their Role in Enterprise Wide Risk Management

Washington, DC, September 17, 2007 – National Credit Union Administration (NCUA) Vice Chairman Rodney E. Hood delivered remarks today at the Credit Union National Association (CUNA) Payment Systems Conference. Attracting CEOs, management, and operations staff from around the country, the three-day conference addresses payment system issues. As part of his continuing effort to promote the best practices of enterprise wide risk management, Hood's remarks concentrated on the evolving Payment Systems, Remote Deposit Capture, Money Service Businesses, and Emerging Retail Payments.

In his opening remarks the Vice Chairman applauded CUNA for keeping the issue of electronic payments and their evolving role in America's financial landscape in the forefront. Hood went on to highlight both the challenges as well as the opportunities brought about by this era of the cashless society, and the role of NCUA in terms of regulating these technological innovations in the financial arena.

The nation's payments system process continues to evolve due to factors such as technological advancements, market pressures, and the introduction of more cost effective methods to provide payment services to credit union member-owners. With this in mind, Hood stated that "at current growth rates, experts predict credit and debit cards will both individually surpass the paper check, in terms of total annual transactions by year-end 2007." The focus of America's payment structure has become electronic.

One such method is Remote Deposit Capture (RDC), which allows checks to be truncated and cleared electronically. Due largely to inadequate software and internal controls, the RDC industry has struggled over the past three plus years with image quality standard issues, duplicate item, and duplicate file presentments. "Although most seasoned, experienced participants have now implemented mitigating controls, duplicate items are still the biggest obstacle financial institutions face," said Hood. Despite these obstacles, the industry is seeing more instances of "checkless" checking accounts and credit unions must learn:

1. What is happening in the payments industry;
2. How they can best position themselves; and
3. How to leverage the changes for success in today's electronic age.

The Vice Chairman noted that “for credit unions, the Automated Clearing House (ACH) growth trend means the process of payments clearing and settlement is becoming more efficient, which is resulting in payment settlements accelerating. This will have an impact on a credit union’s daily funding needs because settlement is occurring more quickly, and may mean less float and investments benefit.”

As payments systems continue to evolve, NCUA faces the same challenges as credit unions. “NCUA recognizes and encourages credit union CEOs/managers to evaluate their business model regularly. By understanding their member-owners’ needs, identifying new technologies and payment methods, and implementing more innovative and cost effective ways of serving their member-owners, credit unions can remain competitive,” said Mr. Hood. Credit unions must also employ some form of monitoring and feedback mechanism to evaluate performance controls in relation to best practices – ultimately helping to identify potential problems and opportunities for improvement more quickly.

Vice Chairman Hood reminded the audience that amid the rapid change and innovation occurring within the payments system, the United States continues to enjoy a safe, efficient, and reliable payment system. In closing Hood stated: “As your Vice Chairman, I will do my part to ensure that our credit unions remain safe and sound as they embrace new technology. I look forward to working with you, the Federal Reserve Board, my colleagues at NCUA, and other credit union stakeholders to identify and address issues of payment system innovation and risk in a fair, balanced, and thoughtful manner.”

The National Credit Union Administration is the independent federal agency that regulates, charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, also operates and manages the National Credit Union Share Insurance Fund (NCUSIF), insuring the deposits of over 85 million account holders in all federal credit unions and the majority of state-chartered credit unions.