

Testimony of Robert James II  
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Protection and Financial Institutions

“Cyber Threats, Consumer Data, and the Financial System”

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Chairman Perlmutter, Ranking Member Luetkemeyer, Chairwoman Waters and members of the Subcommittee, good morning and thank you for this opportunity to testify on cyber threats, consumer data and the financial system. My name is Robert James II, and I am President of Carver Financial Corporation, holding company for Carver State Bank in Savannah, GA, and Chairman of the National Bankers Association (NBA). The NBA is the leading trade association for the country's Minority Depository Institutions ("MDIs"). Our mission is to serve as an advocate for the nation's MDIs on all legislative and regulatory matters concerning and affecting our member institutions as well as the communities they serve. Our member banks are on the front lines of reducing economic hardship in minority communities, which are underserved by traditional banks and have been hardest hit by the pandemic.

MDIs are critical economic development engines in minority and low-income communities, particularly due to our trusted relationships in these communities. Unfortunately, MDIs' small scale and lack of access to cutting edge technology does not allow them to move with the speed or agility required in times like these.

A critical component of the resilience of the banking sector and its ability to assist underserved communities is the ability to adapt technologically to meet customer demands. A host of different factors are intersecting to subtly, but distinctly, change the way the banking industry will operate in the near future. Our

banks, like most community banks, are heavily reliant on a handful of large technology companies that provide core processing services, or the technological systems of our operations. These companies have no incentives to help us adapt to the changing competitive landscape: we are consigned to long-term contracts with punitive early termination provisions, cannot easily plug in modern outside solutions that will make it easier for our customers to do business or to secure their data, the fundamental technology of many of these systems is antiquated and leaves us incapable of making rapid changes, and because we are often the smallest clients of these giant firms, we receive the lowest priority for service.

We saw this play out during each round of the Paycheck Protection Program. Congress devised the program as a mechanism to aid small businesses who suddenly found themselves forced to close during stay-at-home orders. A set of conditions that have favored larger businesses, including many banks only approving loans for existing customers, delaying the application of sole proprietorships, and not allowing enough time for institutions like ours to work with small businesses through the application process, shut out many minority-owned businesses. Our banks found themselves sorely lacking in the technology needed to quickly address the concern. Unregulated companies were able to build technology solutions to address this market, but our banks, reliant on the legacy core processors, were stuck with outdated processes that limited our ability to serve customers.

We also need our regulatory partners to help. We need to invest more in technology and the right people to implement it, but these investments can result in criticism when our earnings don't meet regulatory expectations. We can also find ourselves in situations where the local or regional examiners impede our ability to implement new tech solutions.

Demographic shifts are feeding new customer expectations as well, which are in turn creating an opening in the market for nonbank competitors and upstart firms. Industry observers now predict that within a decade, the biggest bank will be a technology firm.

A number of recent industry reports have attempted to detail how banks are responding to the challenge, whether through investment, data management or new strategies to engage with customers. But with every step, there are obstacles, including potential workforce impact, or just the burden of increased costs of technology investments.

Even as customers primarily conduct transactions over mobile, banks are discovering they still expect branch service to be an option. Young consumers are also open to tech firms for financial services. In a recent global survey, Accenture found 31% of bank customers would consider Google, Amazon or Facebook if they offered such services.

According to a FIS survey, the top 20% of firms are changing policy to promote and emphasize digital innovation. The report noted there are a number of steps being taken at leading firms in the past 12 months to accommodate digital innovation: 50% are recruiting for digital technology expertise; 43% said they were encouraging more open innovation across roles; and 39% were appointing board-level roles with responsibility for digital innovation.

In conclusion, cultural shifts inside the financial services industry, including the core processors and regulators, are necessary to help MDIs better orient themselves to meet new customer demands. We are overly reliant on the core processors and the space is dominated by three companies. Because of this concentration, our institutions are saddled with complex, onerous, long-term contracts that stifle innovation in all areas, including security and identity verification. Contracts are punitive if we want to terminate, and if we do, the extraction of our data for conversion is cost prohibitive and expensive.

As the smallest banks, we get the worst service and the innovations last. So, our banks have a hard time competing with large banks and cannot easily offer our customers the latest technology. This can leave our customers and communities frustrated and vulnerable. We know we don't have the latest and greatest customer facing technology from the cores. We also may not be getting the latest and greatest in terms of cyber security and consumer privacy. The National Bankers Association

and our members look forward to working closely with the Committee and Subcommittee on ways we can level the playing field and ensure that all of our customers have access to the latest, most secure technology.