

October 12, 2021

James P. Sheesley  
Assistant Executive Secretary,  
Federal Deposit Insurance Corporation  
550 17th Street, N.W.  
Washington, D.C. 20429

Re: RFI Supervisory Approach to Examinations During the Pandemic  
RIN 3064–ZA27

Dear Mr. Sheesly,

The American Bankers Association<sup>1</sup> (ABA) appreciates the opportunity to provide feedback to the Federal Deposit Insurance Corporation (FDIC) on its supervisory approach during the pandemic, including fully remote examinations. ABA and the industry appreciate the FDIC's flexibility as banks, and examiners, adapted to the changing conditions the global pandemic presented. We also appreciate the FDIC's ongoing leadership in modernizing the supervision and examination processes.

Overall, banks found the FDIC's remote examination process to be workable, and, in many respects, more efficient than pre-pandemic, fully onsite examinations. However, based on the unique facts and circumstances of each examination, which include, but are not limited to: bank size and condition, examiner experience, technological capabilities of both the banks and examiners, and the economic and business environment in which a bank is operating, there is not currently a one-size-fits all, ideal combination of onsite and offsite examinations. As the FDIC begins to plan future examinations, we encourage it to maintain flexibility by allowing banks to opt for a fully onsite, hybrid, or fully offsite exam, with the proper balance of offsite and onsite work dictated by banker and examiner needs and preferences.

In moving toward this model, we encourage the FDIC to enhance the structure, coordination, and communication for partial or fully remote exams going forward. To this end, this letter recommends steps the FDIC could take to evolve remote examinations as the agency returns to "normal," post pandemic operations. As the FDIC works to modernize its supervision and examinations, we encourage additional solicitation of input from the industry to support the efficiency and effectiveness of examinations.

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<sup>1</sup> *The American Bankers Association is the voice of the nation's \$22.8 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard nearly \$19 trillion in deposits and extend \$11 trillion in loans.*

The following is based on extensive discussions with our members and provides insight into what worked over the past 18 months of fully remote examinations with recommended improvements going forward.

### **Banks' experience with fully remote exams varied, but were generally positive**

Bankers generally found the fully remote examinations to be effective, but expressed wide-ranging opinions on what worked and what could be improved. Areas many banks reported worked well remotely included pre-examination preparations and in-exam data, loan file, and policy reviews. Areas of concern included the reduction of frequent, efficient communications, a decreased sense of examination co-ordination and structure, and a lack of formal, defined end date that led to longer examination periods.

A frequently mentioned disadvantage of a fully remote exam was the loss of routine face-to-face interaction. The examination process relies on productive business relationships between bankers and examiners. In addition to understanding a bank's balance sheet and compliance management system, it is equally important that examiners know and understand the bank's management, business philosophy, culture, community involvement, and decision-making processes, all of which are most easily gleaned from being onsite and through in-person interaction. However, this personal interaction and relationship building is impaired during a fully remote examination. Many bankers are concerned that, over time, fully remote examinations may diminish existing relationships and hinder the development of new relationships, eventually making the examination process less efficient and effective and more difficult.

Bankers also noted that during remote examinations, communication between examiners and bank staff remote examinations tended to become overly reliant on email, which at times created significant logistical inefficiencies and unnecessarily amplified smaller, routine matters. For example, rather than resolving a problem or answering a question by a quick conversation, as often occurs in an onsite exam, offsite resolution frequently required numerous emails and scheduling virtual meetings or calls, sometimes delaying and over-complicating resolution of an issue. Moreover, most examinations require nuanced, complex, or difficult conversations, for example, relating to a new business strategy or an emerging problem. It is particularly important that these conversations take place on a face-to-face basis, to ensure understanding on both sides.

Regarding the remote exam process, many bankers found it to be longer in duration, more cumbersome and, in many cases, less targeted than pre-pandemic onsite examinations.

Moreover, there are some examination components that do not require detailed conversations and thus naturally lend themselves to offsite work, including condition and performance analysis and loan review. Other aspects of examinations are more efficiently conducted on a face-to-face or onsite basis. These include: resolution planning, reviews containing highly confidential information such as Suspicious Activity Reports, cyber, or security incidents, and legal actions. Additionally, items requiring extensive discussion such as the review of certain loans or fair lending explanation, or exam components that require the review of items that may not be readily made electronic, such as review topics that pertain specifically to onsite facilities (e.g.,

Registered Transfer Agent Securities Vault reviews); and some trust documentations may also be best conducted onsite.

Many bankers indicated they would be open to a hybrid approach to exams, where the examiner-in-charge (EIC) and a small team of examiners work onsite for a portion of the exam, with remote examiners performing much of the data and other analysis and review offsite. This would allow both banks opting into a hybrid examination, and the FDIC and its examiners to leverage efficiencies gained through the remote environment, while mitigating some of its downsides.

### **The FDIC should enhance the structure and co-ordination of hybrid and fully remote examinations**

- a. Establish a work plan, including clear points of contact and leverage video capabilities

Organization by both examiners and banks is critical to all exams, but is particularly important for hybrid or fully remote exam efficiency. A fair number of bankers reported that their examinations were less efficient due to the previously noted communication issues and email reliance. Many bankers also felt that the requests from examiners were less structured, often falling outside of the formal request process. Bankers reported cases where the same request was sent multiple times to different people, outside of the bank's designated contacts. Bankers noted a lack of coordination among examination teams—which in some cases didn't realize that bank points of contact were hearing from multiple examiners. In other cases, it was apparent that examiners hadn't seen or reviewed documents provided pre-exam. Many bankers also felt that there was insufficient lead time to process and answer requests.

To enhance co-ordination, we recommend that for hybrid or fully remote examinations, the FDIC encourage its examiners, with input from banks, to establish a formal work plan of what can or should get done virtually, allowing for frequent video check in calls. This could be done through the pre-exam process and would allow banks to prioritize requests and adjust staffing as needed to support the exam. Additionally, both banks and examiners should be expected to methodically document requests and responses. We recommend allowing a lead time of four weeks for processing most requests.

With respect to improving communication in a hybrid or remote environment, we emphasize the need for frequent check-ins, either video or in person, throughout the exam. Many bankers reported that conference calls are not a sufficient substitute for in person or video discussion. Frequent video calls will allow for ongoing updates, helping co-ordinate and streamline the process. Moreover, bankers also suggested that assigning one examiner the task of gathering questions that are then sent to a designated person at the bank could mitigate inefficiencies created by an email. Further, expanded use of video platforms were also suggested as a way to help bridge the communications gap and improve efficiency, particularly if all parties are required to be professionally dressed with their video cameras on, similar to in person discussions. A list of the exam team and their expertise/areas of focus, would further increase transparency and efficiency.

We recommend that the FDIC encourage greater internal and FFEIC cooperation and coordination. Several bankers noted increased collaboration among different examination teams, as a very positive development of the pandemic exam process. They described improved coordination, among the FDIC's safety and soundness/risk examiners and compliance examiners, as well as between the FDIC and state examiners. We strongly encourage this collaboration for all examinations, which makes the process more efficient for everyone involved.

- b. Establish formal examination periods, of reasonable duration, for hybrid and remote examinations

Many bankers noted that, on the compliance side particularly, their examinations took significantly longer (i.e. months, instead of weeks). There are likely a plethora of contributors to these delays, including the inherent learning curve required by the sudden move to remote work in March 2020, communication inefficiencies and new exam staff, and a combination thereof. Unnecessarily prolonged examinations are frustrating for many reasons, but are particularly so from a staffing perspective. Typically, banks implement a vacation freeze over the course of the exam to ensure that relevant staff is available to support the exam. This is much harder when exams span over months, because the exam starts and stops as examiners get pulled away to handle other examinations or issues.

We recommend that the FDIC establish reasonable standards for the duration of remote examinations, similar in duration to onsite exams, with a definitive start and end date, recognizing the need for flexibility and adjustment as events may arise. In conjunction with a work plan that allows for sufficient lead time for requests, a finite hybrid or remote exam would also allow both banks and examination teams to ensure sufficient staffing. Many bankers heard from their examiners and subject matter experts (SMEs) that they were being pulled in many different directions. SMEs are important to many conversations. Accordingly, the need for them to be engaged throughout the course of the exam was highlighted by many bankers. Establishing specific timeframes for each examination would help the SMEs and plan their time, making them more likely to be engaged with a given exam.

- c. Ensure experienced EICs

Based on our conversations, a key determinant of a successful examination was the experience level and depth of expertise of the EICs. Most bankers were highly complimentary of the way their EIC conducted the remote examinations, particularly in light of the unique and stressful circumstances presented by the pandemic. We encourage the FDIC to find new ways to modernize examiner training and development in a remote environment.

### **The FDIC should enhance the technology that supports hybrid or remote examinations**

The technologies used during an exam, including those that allow information sharing, video conferencing, and other forms of communication, is foundational to modern day examinations.

Many bankers noted that safety and soundness exams in particular saw significant efficiency gains, as the review of loans, procedures and policies, meeting minutes, and even review of account reconciliations moved offsite. However, many bankers also noted that the technology used to upload the required information was not able to handle and secure the large amounts of data and documents. Specifically, several bankers reported trying repeatedly to upload zip files, requiring multiple hours of extra time to figure out how to break up the data and information in a way that the system could manage. Some bankers also reported authentication issues, which caused additional frustration and delay.

Bankers very much appreciated the recent updates to *FDICconnect*, but noted that it remains cumbersome to work with, taking a long time to load data and documents, and has limited, inefficient communications options. This “clunkiness” added to the challenge of offsite examinations, and undermined the significant efficiencies gained by offsite review and analysis. According to bankers, *FDICconnect*’s accessibility is best when using MS Explorer. However, there is concern about the browser’s security. And, as the FDIC is likely aware, Windows Explorer will not be supported by Microsoft after June 15, 2022. Ideally, *FDICconnect*, or its equivalent, would work across multiple browsers and operating systems.

We recommend that the FDIC further improve the functionality of its technology by enhancing *FDICconnect* data capabilities and security. Additionally, given the need for enhanced communication tools in a hybrid or remote environment, we recommend the use of other platforms to augment *FDICconnect*, such as Microsoft Teams or similar software, that offers a user-friendly interface, real-time chat, and email options, allowing better and more timely communications. It is important that the platform be “mutually agreed upon” to ensure it fits with in both the FDIC’s and the bank’s systems and security parameters. A longer term solution could be a platform that is common across the FFIEC agencies and targeted to the unique data and communication needs of bank examinations.

The ability to use technology is also important for examiners. We recommend that the FDIC ensure that examiners have the technology (e.g. sufficient wifi, up-to-date equipment, and software) sufficient to handle and secure data from their offsite locations. And, if an examiner is unable to download or otherwise access the information, he or she should work with the EIC and appropriate bank staff to resolve the problem in a timely matter. Additionally, we would recommend that examiners understand and are able to use the necessary technology, including virtual meeting platforms.

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We appreciate the FDIC’s initiative on examination modernization. We stand ready to assist in this important effort. If you have any questions about these comments, please contact the undersigned at (202) 663-5182 or email: [atouhey@aba.com](mailto:atouhey@aba.com). For questions on consumer compliance examinations, please contact Nessa Feddis at (202) 663- 5433 or email: [nfeddis@aba.com](mailto:nfeddis@aba.com).

Sincerely,

Alison Touhey