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Mr. Chairman and members of the Subcommittee, I am pleased to represent the OCC at this hearing on the impact of technological advances on the financial services industry and capital markets. The policy implications of technology-driven changes in the financial sector deserve careful review. I commend you for holding this timely hearing.

I am the Senior Deputy Comptroller for Economic and Policy Analysis. One of my responsibilities is to explore many emerging retail technology delivery systems banks are developing. In addition, I oversee staff with expertise in the models that banks use to measure and manage their financial risks. Those financial engineers participate directly in the OCC's exams of the most sophisticated national banks.

Banks' new uses of technology benefit consumers, as banking becomes more convenient and less costly. It also holds the promise of allowing banks to profitably serve more customers and of making our payments system much more efficient.

Today, banks are investing in new technology as never before. Last year, the banking industry spent $18.7 billion on information technology, outpacing both the insurance industry's $17.3 billion and the securities industry's $12 billion on information technology spending.

There is no question that technological innovation is changing the nature of the banking business. But the sheer volume of existing and emerging financial products and services makes it difficult to gain a clear picture. It is important to keep in mind that few technology-driven products have become "breakthrough" products -- like credit cards and ATM machines -- that fundamentally change the way consumers do transactions. The reason is that breakthrough products depend on the convergence of many incremental innovations, which typically occur over a long period of time.

The dilemma facing government is to avoid stifling innovation that creates the foundation for breakthrough products, while meeting its responsibilities to address market failures. Thus, public policy affecting the pace and impact of technological advances on financial services must be carefully drawn.

Where market failures arise government has a responsibility to act. As bank supervisors, we must prevent undue risk taking to ensure a stable banking system. Our supervisory responsibilities include maintaining the safety and soundness of the national banking system, protecting consumers, and avoiding financial crime. In adapting our supervision to accommodate the sophisticated technologies banks use, we have increased our specialty training of examiners in this area. We also are hiring Ph.D. economists, bringing to 20 the number we will have to support examination teams -- 2 for every 3 of the largest national banks. And we have issued guidance for banks and for examiners on risk management procedures for new technologies. For example, our broad guidance on Technology Risk Management, and on PC banking, delineate the major risks that banks should think about. We also have issued guidance tailored to particular technology products or concerns, including electronic stored-value cards, credit-scoring models, and on criminal threats to the information system infrastructure of banks.

In conclusion, Mr. Chairman continuing technological innovations are crucial to the vitality of the banking industry. Bank regulators must meet their responsibilities to see that innovations do not compromise the safety and soundness of the banking system, that consumers are adequately protected, and that criminal activities are deterred. But in so doing, we must avoid unnecessarily distorting or hindering advances that could lead to marked improvements in how the system meets the needs of our economy and of our communities. The OCC is working hard to ensure that we understand new developments in financial markets, that we maintain the expertise needed to oversee new products and applications, and that we supervise effectively bank's management of technology risk. Thank you.