Remarks by

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Good morning. I'm pleased to be with you today as you celebrate the silver anniversary of the National Community Reinvestment Coalition. Last year at this conference, I spoke about the importance of protecting seniors from financial exploitation, a concern that you have taken up through your National Neighbors Silver campaign. For our part, we at the OCC are helping to identify ways that the banking industry can address the unique financial needs of older adults. I'm very pleased with the progress we've made together in this area. And, of course, we are very pleased to be working with an organization that's been so dedicated to ensuring access to banking services, expanding mortgage opportunities, and promoting small business development and economic progress in communities across the country.

While the NCRC and its partners can take enormous pride in all that's been accomplished over the past 25 years, the financial landscape is changing rapidly. These changes present both challenges and opportunities for the banking industry. The good news, however, is that new financial technology can be adapted to promote access to the types of financial opportunities that the NCRC has advocated for the past quarter century.

Technological advances are shaping financial products and how they are delivered. There are growing numbers of tech savvy consumers who prefer to conduct financial transactions via computers and smart phones, and to do so at any hour of the day or night. These customers are comfortable accessing cash from ATMs, making deposits via remote capture, using online services to apply for a loan, or resolving problems by chatting via text with a customer service representative. They use smartphone apps to make payments to friends or apply for small loans.

The shift in how consumers access financial services obviously poses a challenge to banks, which are competing in this arena against nimble and sophisticated financial technology companies – "fintechs" for short. Many fintechs do business exclusively via the Internet, using online and mobile applications. They're very new. So many of them have designed and built their systems to match their particular business model. By contrast, banks may have legacy technology systems that are outdated and could be expensive to modify or replace. Many banks also have extensive branch networks, and they bear the significant cost of retaining this physical infrastructure.

However, it would be wrong to assume that fintechs will replace banks and the products and services they offer through established branch networks. I believe the national banks and federal savings associations supervised by the OCC are as nimble and innovative as the new financial technology startups. The fact is that innovation has been a hallmark of the U.S. banking system since it was created in 1863 at the behest of President Lincoln. Historically, as their customers' expectations and needs have changed, national banks and federal thrifts have adapted and evolved.

And the same is true today. Banks are engaged in research to help them adapt to rapid technological change. Some banks are building innovative solutions in house. Other banks are purchasing so-called "white label" solutions to enhance their existing technology platforms, and some are pursuing strategic partnerships with fintechs in order to bring new solutions onboard more quickly. Through innovation banks can and will be able to reach more customers, lower the cost of financial products and services, expand product offerings to better serve customers, and make their branch networks more efficient.

The OCC is committed to supporting responsible bank innovation. Last August, I announced an initiative to develop a comprehensive framework to improve the OCC's ability to identify and understand new and emerging trends and innovations in the financial services industry, as well as the evolving needs of consumers of financial services. This framework will outline our views on responsible innovation and enable us to more efficiently evaluate innovative products, services, or processes that require regulatory approval and identify potential risks associated with adoption.

Right now, we're putting the finishing touches on a paper describing our perspective on innovation in banking. We plan to publish it very soon, and we'll invite comment from banks, their customers, and everyone else with an interest in innovation.

One area of particular interest to me and the OCC involves the way innovative products or services would be considered under the Community Reinvestment Act. The CRA directs the federal financial institution regulators to assess banks' records of helping to meet the credit needs of the communities in which they are chartered. We also consider qualitative aspects, such as how a banks' use of innovative or flexible practices addresses the credit needs of low- or moderate-income individuals or areas.

Another significant aspect of CRA involves the question of where bank services are provided. Historically, convenient access to branches within a community has been an important factor. Although the large bank CRA service test places primary emphasis on branches, alternative systems for delivering retail banking systems are also considered. The OCC looks at the availability and effectiveness of a bank's systems for delivering retail banking services to low- and moderate-income areas and individuals. Fintech-related product enhancements and innovative lending programs or account services that banks offer are evaluated in line with these basic CRA principles.

The banking agencies are currently working to finalize updates to a document known as "the Interagency Questions and Answers Regarding Community Reinvestment." Those Q&As will give additional guidance on how alternative delivery systems are considered by the regulators. I hope that will be helpful. However, I want to underscore my belief that technology may not be a substitute for a physical presence in low- and moderate-income communities. The presence of a branch is a not just an essential vehicle for providing financial services, it is a stabilizing force that helps determine whether communities thrive or just barely survive. That is why a bank's record of opening and closing branches in low- and moderate-income communities is considered under the CRA.

The local bank is not only a source of credit, it is essential to the small businesses that are so important to a community's economic vitality. Many small businesses rely on convenient branch access for daily cash needs and for making deposits, particularly if they are depositing cash, as well as face-to-face management and expertise to meet their ongoing credit needs.

For many customers, branches also remain the preferred place to do business. Senior citizens may feel more comfortable or secure about transacting their banking business in a branch setting and depend on having a face-to-face relationship with branch staff. Other customers rely on in-person meetings with bank personnel to answer their financial questions or to assist with more complicated transactions, such as a consumer or business loan, a mortgage application, or investments. And without a local bank, disadvantaged residents may be forced to choose between traveling great distances for basic financial services or dealing with payday lenders and check cashers.

Let me add that brick-and-mortar branches play an important part of every bank's business strategy. They help banks build a brand in the community, and branch location is high on the list of decision points for potential customers. And while some banks will open accounts online or through a call center, the vast majority of new accounts are opened in a branch. Indeed, with rising fraud and security concerns, many banks lean strongly toward branch-based account opening.

However, maintaining and preserving an efficient and cost-effective branch network can be challenging. As consumers, particularly in more affluent neighborhoods, increasingly meet their basic needs for financial services through alternative delivery systems, such as ATMs, online or mobile platforms, and call centers, branch traffic has declined. Many banks are managing the expense of keeping branches by cutting back square footage, revising staffing roles, or introducing sophisticated technology solutions. Smaller-sized branches, multi-function ATMs, self-service kiosks, or mini-branches located in commercial space, such as a mall or grocery store, can offer branch services more cost effectively. Mobile branches can serve multiple communities. A "pop-up" bank can open for a short time to sign up new accounts. A few banks are redesigning branches as wi-fi cafes to draw customers.

Some banks are also revising or updating their in-branch services, while finding alternative ways to meet customer needs. Cross-training staff as universal sales people who can explain multiple products can enhance branch efficiency. New technologies are automating operations. One system helps tellers handle customer transactions by dispensing cash and automatically reflecting the transaction in the bank's daily balance account. Online concierge systems that book appointments may help branch staff manage their time efficiently and give customers added convenience. To both improve branch efficiency and serve customers better, video conferencing stations in a branch lobby can connect customers to call center personnel who speak their language, or to more highly qualified personnel who can provide advice on complex transactions or small business matters.

As you can see, innovation can help banks thrive by increasing branch efficiency and improving financial products and services. But it is important to stop and ask a few questions. Are today's innovative financial products and services enhancing the customer experience and helping people manage their finances better? Can these innovations be used to move unbanked and underbanked consumers into the financial mainstream? Can we ensure that innovative products and technology solutions meet the needs of low- and moderate-income customers in a fair and cost-effective manner? These questions deserve serious consideration. The benefits of innovation will be undermined if fintech developments and product innovation involve excessive cost or disadvantage unbanked or underbanked consumers.These are questions that banks, regulators and policymakers need to consider now.

Certainly many fintech solutions provide consumer benefit, particularly to low- and moderate-income individuals. For example, real time account access is important to lower-income consumers who are managing their money to the penny and cannot afford to inadvertently overdraw an account. There are even some innovative fintech services that can be used to help consumers with financial management by smoothing their income flows and anticipating recurring expenses to avoid a mismatch.

And there are great opportunities. Among lower-income households earning less than $25,000 annually, nearly three-quarters have mobile phones and slightly over half are using smartphones. Increasing numbers of unbanked consumers have smartphones, and 90 percent of underbanked consumers have mobile phones, 73 percent of which are smartphones. Despite these high rates of Internet access, differences remain. Demographic factors, such as income, education, and age, affect Internet usage rates, and consumers in rural areas show lower rates of adoption. Additionally, lack of broadband access or the cost of data usage or network coverage for rural consumers and the cost of even basic cellphone service for low-income consumers may be factors that limit online or mobile banking usage.

Banks are also embracing new types of transaction accounts and broadening access to their loan products. Lower-cost prepaid cards or checkless bank accounts accessed through a debit card may be suitable entry products for unbanked or underbanked consumers, and can potentially pave the way to a longer term, broader account relationship. Automated underwriting systems that incorporate alternative credit history information, such as rent and utility payments, may expand creditworthy borrowers' access to mortgage or consumer loan programs.

In addition, banks have long supported financial education efforts. Today, some branches are setting aside excess space for use by nonprofit counseling programs. Many banks also offer their customers online financial counseling, budgeting, and money management tools. As more people use mobile wallets, consumers may be able to leverage information about transactions and spending to manage their finances in real time.

All of these financial services developments give us a lot to consider, and our upcoming white paper should provide a good start. I believe that by taking full advantage of innovation to better meet customer needs and expand access to the banking system, and by responsibly managing the associated risks, banks and thrifts of all sizes will continue to be essential providers of financial products and services to consumers, businesses, and their communities.

I want to thank all of you and your organizations for your commitment to promoting economic opportunity. Your work and continued engagement are a critical underpinning of the national effort to improve access to financial services. Thank you for giving me this time. I look forward to your questions.