Remarks By

Thomas J. Curry
Comptroller of the Currency

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Good morning. It's a pleasure to be here with you, and not just because it gives me a chance to get back home to Boston. More importantly, it gives me a chance to get out of Washington and reconnect with the outside world.

Today, I'm going to share some thoughts with you about what we're up to at the Office of the Comptroller of the Currency, or OCC as it's often abbreviated, including a new initiative we have underway that's focused on financial innovation. What I'm really looking forward to, though, is the opportunity to hear from you. I learn a lot from the questions I'm asked after speeches, and I hope I'll be able to reciprocate by offering some insights in return. But I'm especially interested in the opportunity for a dialogue. I'd very much like to get your thoughts on what we're doing and how you think we might be able to do it better.

First, let me give you a quick thumbnail about who we are and what we do. The OCC was created in 1863, at the urging of President Lincoln, to provide a uniform system of national currency and to oversee a banking system that would be subject to a uniform set of national standards. In the 153 years that followed, the national banking system has grown to embrace more than two-thirds of the nation's banking assets, from the very smallest banks and savings associations in communities around the country to almost all of the large U.S. banks that operate globally. The banks we supervise are the backbone of our national economy. They are responsible for most of the credit cards issued in the United States, for example, and the lion's share of commercial and industrial loans that support businesses.

Of course, as we learned in 2008, the largest financial institutions are systemically important. That's why we've spent so much time substantially raising the standards that apply to large institutions, from increased capital to better risk management and corporate governance. Much of the work is being done on an interagency basis, particularly in concert with the Federal Reserve and the FDIC, and internationally through the Basel Committee on Bank Supervision. Systemic issues are being addressed through the Financial Stability Oversight Council or FSOC, of which I am a member. And we at the OCC have undertaken two initiatives aimed at strengthening the system that I think are as noteworthy as they were innovative.

The first was aimed at improving ourselves. In 2013, we asked a group of regulators from three countries that proved particularly resilient during the financial crisis to conduct a top-to-bottom review of the way we supervise our largest banks. It's always helpful to receive a critique from one's peers, even though it's often painful. But the results were well worth it. The report they produced validated some of our own initiatives, and provided a number of recommendations. Today, the results of the peer review, as operationalized by working groups within the agency, have strengthened the agency and transformed some of the ways the OCC supervises large institutions.

The second initiative was directed toward the institutions in our Large Bank Supervision program. It started in the wake of the financial crisis as a series of heightened expectations aimed at improving corporate governance, risk management, and internal audit. It's since evolved into a set of very specific standards, along with an enforcement mechanism, that we've added to our regulatory rulebook. Looked at as a whole, the standards require boards to be a check on excessive risk taking and to foster a healthy corporate culture that values the reputation of the organization and balances profitability with responsible behavior.

Just as important as *what* we did, however, was *how* we did it. Laying out the standards from both projects in an open and transparent way gave the public a means of holding us accountable and provided the institutions we supervise with a clear understanding of our expectations. And, just as the industry and other stakeholders had the opportunity through the rulemaking process to comment on our heightened expectations, so too did OCC employees across the agency have a means to voice their opinions and suggestions about implementing the peer review recommendations. Building support throughout the agency in this manner has allowed the peer review recommendations to take hold and change the way the OCC does business.

As you probably know, accountability is not always easy to achieve in the public sector. Private companies are held accountable by their customers. They succeed or fail depending upon how well they perform. We don't have that kind of mechanism. Our goal isn't to please the institutions we supervise. Instead, it is to ensure they are safe and sound and treat their customers fairly.

So one way to bring accountability to what we do is to lay out our expectations and objectives and let the media, Congress, and the public judge how well we've done. It's a way of keeping ourselves on our toes and ensuring that we continually strive to improve. We have done that by creating an enterprise governance unit that independently assesses our internal controls and supervision programs, an enterprise risk management unit headed by a chief risk officer that provides a framework for identifying and mitigating agency risks, and an office of strategic management to oversee our strategic priorities.

While we are by no means finished with the work we began with heightened standards and the peer review, we are looking ahead and raising some fundamental questions about the nature of banking in today's world. Now, some of you might say I'm framing that question too narrowly. You might argue instead that in a world in which technology is opening doors to all kinds of financial innovators, the real question is whether there's still a need at all for traditional commercial banks.

Well, I do think banks are more relevant and more important to our national economy and our communities than ever before. They are a source of stability and strength in times of financial distress, and they serve the nation as a whole, with a statutory duty to serve their communities. But the rise of financial technology companies, or "fintechs," as they are sometimes called, does pose challenges for traditional banks. It challenges them to stay abreast of technology and new approaches, and to continually improve the products and services they offer. It challenges them to develop and maintain a clearer understanding of the evolving needs and preferences of the consumers, businesses and the communities they serve and seek new ways to reach those who have sought financial services outside the banking system. That is a good and healthy thing.

It also challenges us. Not every innovation is appropriate for a regulated financial institution, and not every innovation that is appropriate for a regulated institution is appropriate for *all* regulated institutions. But avoiding new approaches completely is equally dangerous. Banks have to continuously adapt to prosper, and we, as regulators, have to be knowledgeable enough to understand new technology and nimble enough to render timely decisions on matters requiring regulatory approval, as well as guidance about our supervisory expectations. We at the OCC are ready to accept this challenge, bringing to bear the considerable expertise of our examiners; our policy, compliance, and community reinvestment specialists; our legal staff, information and technology professionals, and our economists, as well as our willingness to develop and obtain additional expertise in emerging technology as needed.

Our objective is to open the door for the banks we supervise to engage in the kind of innovation that can benefit businesses and consumers, including individuals who have not been well served or—in some cases served at all—by traditional banks.

But recalling the lessons of the financial crisis, when some “innovative” products such as subprime mortgages and financially engineered securitizations were used in ways that had disastrous consequences for individuals, communities, and our economy, we want to be sure that the banks and thrifts we supervise innovate in a way that is compatible with safety and soundness and consistent with consumer protection laws and regulations. In short, what we are trying to encourage is *responsible* innovation.

A responsible innovation is one that is consistent with sound risk management practices. That means that the bank understands the product and the risks it carries, and has the capacity to manage those risks. It also means the product is compatible with safety and soundness and consistent with the bank’s strategic business plan. And finally, responsible means that it complies with laws and regulations, particularly those aimed at protecting consumers.

Today, we are releasing a white paper that discusses in some detail our approach to responsible innovation. I’ve brought along copies, and of course it’s available on our Web site at www.OCC.Gov. We’re soliciting comments from the public, and we’d certainly welcome your thoughts.

Essentially, we are working on a framework to help us understand and evaluate innovation. It’s possible that we’ll decide we need a new office dedicated to innovation, just as some banks have developed innovation centers, but we haven't made that decision yet. At a minimum, we'll want to be sure we have the capacity to identify and understand new trends and technology, as well as the emerging needs of the consumers of financial products. We want to be sure we're in a position to quickly evaluate products that require regulatory approval and identify the risks that go with them—as well as the safeguards that will be necessary to manage those risks. And we want to be a resource for banks and thrifts looking for guidance on our supervisory expectations as they consider new and innovative products.

In the paper, we enumerate eight principles that we will use to guide the development of our innovation framework, and some of the options we are considering. I won't list all of the principles here, but I will point out that several of them have to do with creating an environment in which responsible innovation is both encouraged and allowed to flourish. The paper recognizes that the regulatory environment can be risk averse, and that both our employees and the banks we supervise—as well as fintechs—might view us as inhospitable to innovation. After all, innovation is not risk free. But it can be managed, and we want to foster an internal culture that is receptive to new technology and new ways of doing business.

We've already had inquiries from banks pursuing their own homegrown fintech strategy through innovation labs and from nonbank fintech companies interested in collaborating or partnering with banks. We've also heard from some who wonder about the potential for obtaining a national charter. There's value, as well as risk, in each of these approaches—for banks, for entrepreneurs with new and better ways of providing financial services, and for the consumers of financial products and services.

On the value side, fintech firms benefit from alliances with banks because banks have financial resources and customer relationships they can build upon. Consumers of financial products benefit from the extensive work that banks have done to address cybersecurity—a concern the OCC has also devoted considerable time and resources to in recent years. Businesses and consumers also benefit because innovation is certain to expand the range and usefulness of financial products available to them. And while the banking industry is as innovative as any business sector, banks will benefit by gaining one additional means of improving their offerings and staying abreast of technology.

There's another side to this coin. As important as new approaches and new technology are to the continued vitality of both the regulated banking industry and the economy as a whole, it's essential that we approach innovation in a thoughtful and responsible way that guards against risk to consumers and threats to the financial system.

That means, among other things, that companies operating with a federal charter or in partnership with a federally chartered bank are sound and comply with basic consumer safeguards that apply to all creditors. I would be very concerned, for example, if we were to authorize a federal license that offers the benefits of the national bank charter, including preemption, without any of the safeguards or responsibilities that apply to banks and thrifts.

Among the safeguards is the benefit of prudential supervision. Our job is to help ensure that banks of all sizes are capable of withstanding economic storms so that they can continue to support their communities and their customers. I would worry about the staying power of some of the new types of lenders. One of the great virtues of community banks is that they know their customers and they stand behind them in good times and bad. I'm not so sure that customers selected by an algorithm would fare as well in a downturn.

The OCC will approach innovation with our eyes wide open to the attendant risks, but also an open mind to promising new ideas and new technology. In fact, that's consistent with the history of the OCC. Throughout our 150-plus years, the OCC has been willing to let the national bank charter adapt to our nation's changing economic needs. I think our white paper on innovation will continue that tradition, opening the door to change without neglecting risk management.

I alluded earlier to the public purpose of banking—to the significant social and economic benefits that we derive from banks and banks alone. These benefits extend beyond the traditional role that banks play in facilitating payments and providing a safe repository for deposits and other valuables. Banks also employ hundreds of thousands of Americans in good jobs. They support the communities they are chartered to serve, both through their lending and investment activities and their corporate sponsorships of voluntary organizations. So if regulation adds value to the banks we supervise, we, as citizens, get plenty of value back—value that makes our country stronger. The OCC is committed to ensuring that banks retain their relevance and fulfill their public purpose for many years to come.

Thank you. I'd be happy now to take your questions.