

Remarks by  
Thomas J. Curry  
Comptroller of the Currency  
Before the  
American Banker Retail Banking Conference  
Las Vegas, Nevada  
April 7, 2016

Good morning. I'm pleased to be here with you today, and to have this opportunity to talk about some of the issues that are affecting your business and mine. In particular, I want to address the role of innovation in the financial services industry and offer some thoughts on how new approaches and new technology will affect retail bankers, consumers of banking services and regulatory agencies like the Office of the Comptroller of the Currency.

You all work in retail banking, so you know better than most just how much the financial environment is changing. The changes taking place in the retail banking environment are often characterized as revolutionary, and there's clearly some truth to that. I was told that American Banker held its first retail banking conference 21 years ago, and I wondered how attendees at that event would have reacted if they had been told that a future conference—this year's conference to be precise—would feature sessions on crowdsourcing, remote capture, fintech, and digital wallets—things that didn't even exist back in 1995. I suspect it would have seemed futuristic, if not fantastic. And I'm guessing that a good many regulators in 1995 might have reacted to news of what the future held with a single word: "No," as in, "no way on earth will we allow that." I'll get back to that last point in a few minutes.

The reality is that the environment in which financial institutions operate is changing. It's changing quickly, and for the most part, it's changing for the better. Businesses and consumers expect more from financial institutions, and technology opens the door to products we couldn't have imagined even a decade ago, let alone in 1995. There are products in this category like mobile banking that make life easier for the average person. There are services that protect against fraud, such as online "on-off" switches for debt and credit cards that allow consumers to deactivate a lost card quickly and reactivate it when found. And there are products that help families with limited resources, such as an "income smoothing" service that helps hourly workers even out differences in weekly paychecks.

I see national banks and federal savings association embracing change and, in many cases, leading it. But regulated banks aren't the only show in town when it comes to financial services and your competitors are taking advantage of every opportunity to get a leg up on you. It's not unreasonable to ask if it matters to consumers of financial products or to the financial system as a whole whether innovation occurs inside a regulated bank. After all, technology has made it possible for nonbank companies to offer an array of bank-like services without the necessity of a single brick-and-mortar branch.

I think it does matter, both to the system and to the individual consumer. The federal banks regulated by the OCC, for example, are subject to a healthy supervisory regime that focuses on everything from whether they treat their customers fairly to how well they are managing cybersecurity. Customers of banks can take comfort in knowing that their money is protected by deposit insurance. Banks 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 if banks are to remain relevant in a changing world, they have to be able to adapt quickly to changes in technology and business practices. So it's important that regulators are open to the changes that are underway in both technology and business practices, and that we are able to evaluate both the risks and the opportunities that innovation presents. We at the Office of the Comptroller of the Currency want to support efforts by federal banks to innovate, but we also want to be sure that they do so in a responsible way that doesn't threaten the safety of the system or the financial well-being of bank customers. As we noted in our *Semiannual Risk Perspective*, an OCC publication that highlights key risks facing the industry, innovation often involves taking on unfamiliar risks. Banks engaged in responsible innovation need to strike the right balance between providing benefits to consumers and businesses with sound risk management.

I first publicly raised this issue of "responsible innovation" in a speech last August, but the subject is one that's been high on our list of priorities for some time. As you may know, we formed a working group last year to consider how we should approach new technology and new business practices, and last week we issued a whitepaper setting forth our perspective on responsible innovation. You can find the paper on our Web site at [www.OCC.gov](http://www.OCC.gov), and I hope you'll give it a look. We're very interested in getting comments from bankers, among others, so I hope you'll also take the time to provide us with your thoughts.

I know that most people identify innovation with the new breed of financial technology companies, or fintechs, that are springing up, and that's a significant part of our focus. However, we're also interested in new approaches to banking and financial services, including new regulatory approaches. So, for example, we recently proposed guidance that would allow federal banks to make high loan-to-value mortgages against properties in areas slated for revitalization. As you know, high LTV loans are typically anathema to regulators, so the proposal required us

to look at the issue with new eyes. Our view was that while high LTV loans carry risk, that risk is manageable, especially when balanced against the urgency of addressing the problem of blighted neighborhoods.

That's how we're approaching innovation. There are risks, to be sure, but they are risks that capable banks can manage and capable supervisors can address. And there are benefits in innovation, not just for banks, but for their customers and especially for people who have been overlooked by the financial system. As regulators, we need to maintain a healthy skepticism, but we need to look at emerging technology and new business practices with new eyes.

As I said in a speech last week, 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 in order 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, and we are ready to bring to bear the considerable expertise of our staff to support banks and to develop and obtain additional expertise in emerging technology as needed.

To guide our efforts in developing a framework to support responsible innovation, we developed eight principles that are discussed at some length in our white paper. The first is quite simple and basic: we support responsible innovation. Some of you might think that should be a given, but the regulatory establishment can be quite conservative. As we researched the subject, we were reminded that not only do bankers and others outside the OCC view regulators as

resistant to change, but some of our staff do as well. So the second principle flows from the first: we intend to foster an internal culture that is receptive to responsible innovation.

Receptivity implies a willingness to engage in a positive way, and I want to be sure that all of the expertise and experience of the OCC are available to support federal banks as they apply new technology and consider new ways of doing business. We'll make examiners, policy and compliance experts, legal staff, information technology professionals, and economists available to the banks we supervise, and we will consider designating lead experts on responsible innovation to support banks. And I don't just mean large banks. One of our eight principles specifically calls on us to encourage banks of all sizes to integrate responsible innovation into their strategic planning.

Two of our principles focus on our expectations for federal banks. First, we believe innovation has the potential to broaden access to financial services. While banks subject to federal regulation have generally done a good job in serving their communities, too many people have been left out. I want to encourage innovation that brings unserved and underserved people into the banking system and ensures that they are treated fairly. The OCC plans to share success stories describing how national banks and federal savings associations have improved access for unbanked and underbanked populations through innovation, and we may issue guidance on our expectations for banks to meet the needs of low- to moderate-income individuals and communities.

While financial technology can improve access to financial services, I don't want banks to view it as a means of ending their physical presence in low-income communities. In addition to being a source of credit and financial services, bank branches serve as a stabilizing force in

communities, and that is probably far more important in less-affluent areas than high-income communities.

The second of our expectations has to do with safety and soundness. Innovating through in-house development, third-party collaboration, or business combinations present risks that require effective corporate governance, due diligence, risk identification and measurement, and internal controls. Banks of all sizes will need to ensure appropriate risk management plans are in place when considering new products, services and technologies, using models and managing third-party relationships. The OCC's framework will describe ways that national banks and federal savings associations identify and address risks resulting from emerging technology.

Finally, outreach is a key element in encouraging and supporting responsible innovation. To stay abreast of changes in the market and changes in technology, the OCC will engage in an ongoing way with technology providers, banks and others. We also intend to sponsor events such as "innovator fairs" to bring together banks and nonbank innovators with OCC experts to discuss regulatory requirements and supervisory expectations and ensure a clear understanding of the financial services regulatory environment. And as you may have seen, we are sponsoring a forum on responsible innovation that will be held at our headquarters in Washington on June 23. We'll be sharing information on comments we receive on our white paper, and we'll have a number of panel discussions on different aspects of financial innovation.

We also intend to engage with other regulators in a collaborative way to promote a common understanding and consistent application of laws, regulations, and guidance. Because the mission of the OCC intersects with that of other bank regulatory agencies, such as the Consumer Finance Protection Bureau, it's critical that we collaborate and coordinate in a way that minimizes unnecessary regulatory burden. Such coordination will give banks greater

confidence that regulators who share responsibilities will consider innovative ideas consistently. It will also give consumers greater confidence that their interests are being protected.

While we've done a great deal of work leading up to publication last week of our white paper, we've really just begun. I think the principles I've described are important and probably the right guideposts for our work in responsible innovation. But we really do need to hear from you. So if you'll permit me to make this pitch one more time, I hope you'll read the paper and share your thoughts on it with us. This is an important area and it's vital that we get it right.

As I said at the outset, it's not unreasonable to characterize the change underway in the financial marketplace as revolutionary. But purists might point out that real revolutions sweep away existing institutions. That hasn't happened, and in the case of banks, I doubt it ever will. Banks continue to serve as key intermediaries in our economic life, continue to provide products and services people depend upon, and continue to be a source of strength to our communities and our nation. The fact that banks have been around forever isn't particularly important. The fact that they continue to play that vital role is.

So it may be more accurate to say that what's taking place around us may turn out to be a revolution in the literal sense only if banks fail to embrace the changes fostered by new technologies and rising consumer expectations—and if regulators fail to understand and support these new technologies. Without change, banks could go the way of other businesses that failed to adapt to changing times. But if they do adapt—and I believe the evidence is encouraging—banks can hold or even increase their share of the growing financial services marketplace. That's because they bring some very decided advantages of scale, scope, and understanding of customer behavior to the table that other financial providers don't.

I don't think any of that is news to you. If there is a revolution underway in financial services, than those of you in retail banking are on the frontlines. What I want you to know is that the OCC is ready to support you as you engage in the kind of responsible innovation that serves the needs of all financial consumers and makes our financial system stronger than ever.

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