Remarks

By

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Thank you for that introduction. It's a pleasure to be in the Chicago area again to discuss financial innovation and, more specifically, the convergence of emerging financial technology and traditional financial services. It's an exciting time to be in banking. All over the United States, and around the world, bankers and other entrepreneurs are figuring out how to adapt their businesses to the changes taking place in the financial services industry. Some banks are creating their own versions of financial technology innovations, while others are expanding their collaborative relationships with—or simply acquiring—companies that offer new technology or services that complement the banks' existing business plans. In my short time with you today, I would like to share my perspective on where financial innovation is today, the potential I see for fintech to improve the lives of ordinary Americans *and* improve businesses' bottom lines, and what the Office of the Comptroller of the Currency is doing to encourage responsible innovation within the federal banking system.

First, I’d like to tell you a bit about the agency I’ve been privileged to lead for the last five years as Comptroller of the Currency. Financial professionals understand the agency’s role in administering the federal banking system, chartering and supervising national banks and federal savings associations, and, when necessary, taking enforcement actions against institutions and individuals for failures in compliance or safety and soundness. The OCC’s 4,000 full-time employees include experienced, dedicated, and well-trained bank examiners, supported by attorneys, accountants, economists, and other professionals. The men and women of the OCC oversee 1,400 national banks and federal savings associations that account for two-thirds of the assets held by U.S. banks—nearly eleven and a half trillion dollars. In one way or another, the majority of American households have some relationship with at least one of the banks we supervise. The OCC and the federal banking system were created in 1863 by President Abraham Lincoln. The secret to the agency’s and banking system’s longevity is the ability to adapt and innovate to meet the needs of the nation’s consumers, businesses, and communities.

That ability to adapt and evolve to meet the changing needs of customers and the marketplace is as critical today as it was 50 or 100 years ago. While innovation and change occur constantly, history shows that progress comes in waves. Based on the volume of change occurring around us today and the palpable energy behind financial innovation, we are in the midst of a very large wave of *potential* progress.

That swell of progress, and recognizing the potential of financial innovation, led me to coin the phrase “responsible innovation” almost two years ago, just a few miles south of here. Matt Feldman, President and CEO of the Federal Home Loan Bank of Chicago, invited me to speak at his conference on “Leading toward the Future; Ideas and Insights for a New Era.”[1] One of my main points then was the same as it is now: Innovation can change everything, but it must fit within the company’s business plan, the risks must be understood and managed, and consumers must be treated fairly. That’s what I mean by responsible innovation and that’s what innovation must achieve for it to live up to its potential.

That speech nearly two years ago sparked an important conversation about how innovation could enhance the delivery of banking products to customers, businesses, and communities and make banking more efficient. Since then the conversation has expanded to include the appropriate role for federal and state regulators and what we could do to support responsible innovation occurring within banks, and among fintech companies seeking to partner with banks, provide services to banks, or become banks themselves. Of course, the conversation now also includes a debate about the appropriate way to license a fintech company and supervise its activities on a national scale.

I am struck by how the conversation has changed in just two years since Matt asked me to talk about financial innovation. Industry conferences a year or two ago hosted a couple hundred people and companies, today they host literally thousands. For instance, last month I spoke at an industry event in New York with more than 4,000 registered fintech industry participants.[2] It was evident to me that the industry had not only grown, but had matured in important ways. The conferences now include topics such as “meeting community needs,” “financial inclusion,” “collaboration,” and “compliance.”

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[1] See https://www.occ.gov/news-issuances/speeches/2015/pub-speech-2015-111.pdf.

[2] See https://www.occ.gov/news-issuances/speeches/2017/pub-speech-2017-27.pdf.

That's a positive sign for the industry and the consumers and businesses that rely on it, particularly when you consider how rapidly some sectors are growing. At the conference I mentioned earlier, more established fintech companies like Lending Club, SOFI, and OnDeck now *claim* to be leaders in their targeted markets. By the end of 2016, Lending Club had provided more than $24 billion in personal loans.[3] SOFI's student lending exceeded $17 billion.[4] And OnDeck has made more than $6 billion in small business loans.[5]

While marketplace lending is important, it is just one of the many ways that fintech is changing how consumers relate to financial service providers and how they take charge of their finances. Innovation has equipped consumers with more responsive and automated tools that support payments, promote savings, smooth income volatility, and provide personalized credit solutions that satisfy their lifestyle and needs. Just this month, banks launched new cardless ATMs that allow you to connect, get cash, conduct transactions via your smartphone, because we don't live in a cash-free society . . . yet. At the same time other services, are helping people transfer money from one to another without cash at all.

For me, one of the most exciting parts of this wave of innovation is the potential for technology to expand access to the unbanked and underserved, in the same way that the Internet helped democratize information. Data from the FDIC and others show that minorities and other traditionally underserved populations may embrace fintech at even higher rates than the general population. As connectivity becomes more universal, so does access to these valuable services.

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[3] See https://www.lendingclub.com/info/statistics.action.

[4] See https://www.sofi.com/refinance-student-loan,

[5] See https://www.ondeck.com.

Technology has the promise to improve service and increase inclusion, but it is important to remember that apps are no substitute for a bricks-and-mortar presence in a low- to moderate-income community. Branches continue to play valuable roles in their communities.

The innovation we are witnessing, *and benefiting from*, is not a local, or even a national phenomenon. It's occurring globally. A recent report from KPMG that looked at 100 of the top fintech companies from around the world found that only 35 were from this hemisphere, and that four of the top five were from China.[6] That means competition among financial service providers has the potential to become more global in nature, and that raises all sorts of questions for consumers trying to make informed choices about their financial decisions as well as for regulators considering the regulatory environment that crosses borders and at the same time appears borderless.

As much as innovation is changing retail financial services, it is also changing the back-end of banking, payments processing, and even regulation. For example, distributed ledger technology is fueling advances in payments and smart contracts. "RegTech" is helping banks comply with laws designed to protect consumers and control risks related to money laundering and terrorist financing. All types of entities operating in the financial sector—not just banks—must ensure that they focus on protecting consumers and controlling the risks of money laundering and terrorist financing as they implement new ways of delivering financial services.

In an environment as dynamic as the one I am describing, it is absolutely critical that regulators at all levels keep pace by fostering an open dialogue with stakeholders from every part

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[6] https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2016/10/fintech-100.pdf

of the industry: traditional bankers, startup and established fintech companies, academics, consumer and community activists, and fellow regulators. That's what the OCC set out to do through its responsible innovation initiative.

We began by conducting extensive research and talking to all sorts of stakeholders about innovation occurring in the financial system. What obstacles to innovation exist? What are the biggest opportunities? How can a regulator support responsible innovation without stifling it?

We took that research and published guiding principles in March 2016, providing a simple definition of responsible innovation.[7] We solicited public comment on that paper, and a couple of months later, we held a public forum to continue that discussion, bringing voices from every side of the fintech question to our Headquarters in Washington, D.C. We considered feedback on our paper and from our forum, and in the fall, we published a framework for supporting responsible innovation and announced the creation of the Office of Innovation to implement that framework.[8] In December, we published a paper discussing issues associated with granting national bank charters to fintech companies engaged in the business of banking,[9] and again solicited comments. After carefully considering the more than 100 comments we received on that paper, we released a draft supplement to the *Comptroller's Licensing Manual*, which clarifies how we would evaluate applications from fintech companies and approach

[7] https://occ.gov/publications/publications-by-type/other-publications-reports/pub-responsible-innovation-banking-system-occ-perspective.pdf

[8] https://occ.gov/news-issuances/news-releases/2016/nr-occ-2016-135.html

[9] https://occ.gov/news-issuances/news-releases/2016/nr-occ-2016-152.html

supervising those that ultimately receive national bank charters.[10] Consistent with our core principles of building transparency and maintaining an open dialogue, we solicited comments on that draft as well. The comment period ended on April 14, and those comments are available online for your review. I appreciate the thoughtful feedback we've received, and we are in the process of reviewing those comments before taking our next step in this important area.

I am sure some of you who have been following our work on special purpose national bank charters saw that it has sparked some opposition. At the heart of the issue is the fundamental nature of the business of banking — the business of banking is dynamic and I would urge caution to anyone who wants to define banking as a static state. Such a view risks choking off growth and innovation. The federal banking system has served as a common source of strength for communities across the country and for the broader national economy for more than 150 years because it was allowed to adapt to meet the evolving need of consumers, business, and communities.

While fintech charters have received a lot of attention, I think the greater impact for the federal banking system comes from the progress our Office of Innovation is making. Since October, Acting Chief Innovation Officer Beth Knickerbocker and her team have been working to stand up the function that will be the central point of contact and clearinghouse for requests and information related to innovation. Its staff is already conducting outreach and providing technical assistance, and going forward, will hold office hours in cities with significant interest in financial innovation to make candid regulatory advice more accessible. The office will promote

[10] https://occ.gov/news-issuances/news-releases/2017/nr-occ-2017-31.html

awareness and training among OCC employees to improve our understanding of these important issues, and lead our collaboration with other regulators, foreign and domestic.

One of the primary purposes of the office is to support banks, particularly community banks, but we are also seeing a great deal of interest from fintech companies that want to learn more about doing business and collaborating with national banks and federal savings associations. Many fintech companies have relationships with banks—cobranding agreements, joint ventures, wholesale lines of credit, or direct investment. Others have partnerships that deliver capabilities to complement the portfolio of products and services the banks already offer. To support this part of the office's mission, the team will begin holding its first office hours next month. The office hours will give community bankers, fintech companies, and others the chance to sit down informally and confidentially with OCC staff to discuss specific innovations, business plans, collaboration agreements, and other topics on the minds of stakeholders related to innovation in the federal banking system. Over time, I believe the changes occurring at the OCC and its Office of Innovation will yield significant value for banks and the customers they serve.

Outside observers should not underestimate the change that this effort is bringing to the OCC and the industry. Early on in this process, we recognized that our regulatory instinct has been to say no and to be too risk averse. Over the last two years, we've worked very hard to take a more open approach, while still maintaining appropriate caution to prevent reckless and bad behavior.

As we saw during the crisis, innovation is not without perils, and today we are paying attention to some warning signs about the performance of assets based on models that have not yet been tested by time and more adverse credit conditions. We have to be open to responsible innovation but we cannot compromise the integrity of the banking system or allow untested products to result in unintended consumer harm, or unfairness in accessing financial products or services, or non-compliance with laws or regulations.

Companies and regulators must proceed cautiously, even as we work to realize the promise of fintech and financial innovations. There is every reason to believe that fintech will change our lives, because it has already done so, more than once. Take traveling as just one example. A few decades ago, taking a trip almost certainly meant loading up your wallet with cash and traveler's checks. Remember *those*? ATMs existed but were far from ubiquitous and definitely not connected in the universal way they are today. Some merchants took credit cards, but you needed to make certain beforehand. And that's how complicated *domestic* travel was. Consider the effort overseas trips required just a few years ago and contrast that with the experience of traveling abroad today. Almost everyone accepts plastic, and even if they don't, you're almost never out of sight of an ATM that gives you global access to your money back home. We take all that for granted today, but these capabilities are really examples of how fintech and the power of innovation made a fundamental difference in our banking and financial services industry.

As they say, past is prologue, so I am very optimistic about what financial innovation will deliver in the future and what historians will say about our efforts when they look back on this period 50 or 75 years from now. Like most of you, I can't wait to see what comes next. Thank you for your attention and your enthusiasm. I would be happy to take a few questions.