

April 14, 2017

Thomas J. Curry
Comptroller of the Currency
400 7th St. S.W.
Washington DC 20219

RE: Comments on Evaluating Charter Applications from Financial Technology Companies

Dear Comptroller Curry,

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to the request for comments on “Evaluating Charter Applications from Financial Technology Companies,” issued by the Office of the Comptroller of the Currency (OCC) and published on March 15, 2017. Like you, we recognize the important role that access to high-quality financial products plays in helping consumers improve and maintain their financial health. We believe that finance can be a force for good in people's lives and that meeting consumers’ and small businesses’ needs responsibly is ultimately good for the consumer, the small business, and the provider.

Previously, CFSI commented on the OCC’s “Supporting Responsible Innovation” whitepaper and your “Exploring Special Purpose National Bank Charters” request for comment. Through our research on financial health, our consulting work, our Financial Capability Innovation Funds, and our Financial Solutions Lab, we have fostered innovative products and technologies that improve the financial health of consumers and nurture small businesses. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met by a range of providers offering clear, transparent, and high-quality products and services at reasonable prices.

CFSI supports the OCC in providing a special-purpose national bank charter as an option for financial service providers who can meet your standards for chartering. A specialized charter for non-depository, tech-driven companies has the potential to accelerate positive innovations that improve the financial health of consumers and small businesses. We believe the benefits outweigh the risks of such a charter but only if the OCC creates the right guidelines and processes for designing and awarding charters and supervising the resulting charter holders.

We also realize that those pursuing a special-purpose national bank charter will be a narrow group within a broader ecosystem of fintech innovators. Those not qualifying for a national bank charter will still need to structure themselves to be able to provide services to their target audiences across the U.S. So while we support the OCC special-purpose national bank charters for fintech companies, we also recognize this is only one of potentially several tools needed to support a rapidly changing, diverse ecosystem. The OCC's continued engagement with other federal regulators, with the states, and with policymakers will be important. The charter can be a powerful tool, but it alone won't solve the whole problem of helping consumers and small businesses nationwide access innovations that improve their financial health.

We support efforts to promote modernization and growth, increase competition, encourage innovation, and measure consumer outcomes, while maintaining safety and soundness. To that end, the OCC should ensure that its direct efforts and any indirect effects of its efforts do not have chilling effects for new innovators – especially ones too nascent to consider this charter at first. Some innovators will still want to work in partnership with banks or may want to obtain state-specific licenses to start their businesses and products more easily. These businesses may later find that sticking with these arrangements may be preferable to obtaining a special purpose national bank charter. This is especially true for products that cross traditional product categories, for business models that may defy clear definitions, and innovations that may require temporary access to sources of capital not traditionally used by banks.

Financial Inclusion Plans

We applaud the financial inclusion plan requirement in the SPNB licensing process. CFSI's Compass Principles begin with *Embrace Inclusion*, and then proceed to *Build Trust*, *Promote Success*, and *Create Opportunity*. We are hopeful that the OCC and other regulators will see these key principles as the foundation for high-quality consumer financial services.

We would encourage the OCC to think about what the definition of and metrics for successful financial inclusion plans might be. While financial inclusion is a good starting point, we believe that helping consumers build and maintain their financial health is the more important outcome for any financial service provider, whether an SPNB, traditional bank, or other financial services providers. Measurable consumer financial health outcomes are the clearest possible indicator of whether financial services are meeting the financial needs of their customers and communities.

Furthermore, financial health metrics do not have to rely on a specific geography or physical location of the financial services providers. This non-geographic characteristic is particularly important for fintech firms that use web and mobile delivery channels.

We recognize there is tension between a specific goal for banks to specifically improve financial inclusion and the broader idea of improving their customers' financial health, whether those customers include consumers, small business, or both. In the last few years, CFSI has pushed the financial services industry toward thinking more broadly about improving financial health of consumers, while maintaining focus on populations underserved by the existing financial services marketplace. Currently, our Financial Solutions Lab, a partnership with JPMorgan Chase, is looking for innovators that solve our [2017 challenge](#) – helping Americans improve financial health. While this is a broad goal, we have made clear that we have a particular, though not exclusive, interest in products and services that serve populations that have been poorly served by the traditional financial services market. Examples of these populations include aging Americans, people with disabilities, people of color, women, and veterans. While we expect that many of the best applicants for the Lab will indeed increase financial inclusion (defined narrowly), we evaluate applicants' impact on consumers' financial health more broadly.

Other Issues

Risk-based approach (pages 9, 18). Risk-based exams are the norm in the industry, but it will be important not to layer old risk models onto fintech firms. How will the OCC assess risk in new lines of business that may be unfamiliar? Also related to risk, it will be important for the OCC to recognize that the fintech community may be less risk-averse than the traditional banking community exam teams usually encounter.

Business plans (pages 7, 9ff). These may be a bit more iterative and evolving for fintech businesses than those for traditional banks. While we don't imagine early-stage startups most prone to frequent business model changes are the target applicant for the SPBN, even mature technology companies thrive on constant innovation in product and business model. This flexibility and nimbleness are key advantages for fintech firms that should not be discouraged, while still maintaining systemic safety and soundness. Business should have a well thought out business planning process that is documented and regularly used and updated, not a plan that merely sits on the shelf. Firms should be encouraged to be more nimble, responsive, and innovative versus just "sticking to the plan." The OCC will need to assess how much flexibility they will be able to allow within the SPBN chartering process.

Organization structure (page 8). This section seems to describe a more traditional organization structure, which may be typical of a more mature firm, but may not be the norm for early-stage companies. Thus, the OCC seems to be signaling that only mature fintech firms with management "experience in regulated financial services" need apply. This may be eliminating some of the very organizations that could benefit from a SPNB charter.

Data security (page 10). In CFSI's [Consumer Data Sharing Principles: A Framework for Industry-Wide Collaboration](#) we say that all entities should follow applicable laws and industry best practices with regard to data privacy and security. Consumers must have confidence that their data are adequately protected by all applications, systems and providers that have access to them. While CFSI supports the adoption of industry-wide technical protocols, we understand that technology will continue to evolve over time. In order to fully achieve the principle of Security, a shared set of standards is needed that can be applied and updated on an ongoing basis. We also urge the OCC to promote true data security, and not just compliance to a specific set of data security practice or standards, which become dated quickly due how quickly data security best practices evolve.

Examination issues. Early detection of problems is generally a good thing, but the OCC needs to be transparent about examination schedules and processes, along with appeals processes. On the other side of the examination coin are plans to address examiner training for fintech SPNBs. The OCC should be explicit in how they plan to provide training and quality assurance in examinations.

Conclusion

In conclusion, we appreciate the OCC's leadership in encouraging innovation that can improve the lives and financial health of consumers and small businesses. One lesson CFSI has itself learned from working with technology firms is that the first "product launch" will be imperfect and have bugs that need fixing. We urge the OCC to view this manual in a similar light. To achieve success in encouraging innovation while regulating the safety and soundness of the evolving financial services industry, the OCC's own standards will require iteration as the market, technologies, and consumer preferences evolve.

Sincerely,

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Jennifer Tescher
President & CEO
Center for Financial Services Innovation

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Jeanne M. Hogarth
Vice President
Center for Financial Services Innovation