From:	Bradley Wilkes
To:	specialpurposecharter
Cc:	Paul Proctor
Subject:	[EXTERNAL] Response to Request for Comments to Consider Fintech Charters
Date:	Friday, January 27, 2017 7:02:28 PM

Dear Mr. Curry:

We appreciate the opportunity to respond to the request to request for comment in connection with the announcement to move forward with consideration of applications from fintech companies for special purpose national charters.

We believe that chartering fintech companies under special purpose charter will have a safe and positive impact on financial service innovation. We offer the following comments in response to the questions asked below:

1. What are the public policy benefits of approving fintech companies to operate under a national bank charter? What are the risks?

Twenty percent of the United States population is underbanked. Seven percent of the United States population is unbanked (https://www.fdic.gov/householdsurvey/). Allowing fintech companies to operate under a national bank charter will enable innovative technology that can help to serve the unbanked and underbanked population in the U.S. This market segment is not generally as profitable to many existing banks as other market segments where banks have focused the services they offer. Allowing fintech companies to address this market can create greater participation in the financial system.

Additionally, in surveying a panel of over 100 global financial service leaders, The Financial Brand concluded that the #1 banking trend in 2017 would be to "remove friction from the customer journey." This prediction adequately reflects an expressed need of current participants in the financial system, but established banks, some hundreds of years old, constantly experience "the innovator's dilemma," a phrase coined by the Harvard Business School professor Clayton Christensen. "The innovator's dilemma" refers to the difficulty of an established business to make changes to its model that would cannibalize their current revenue streams. Public markets typically respond unfavorably when shareholder value is compromised in the short term to plan for innovation and greater success in the long term. Consequently, publicly traded incumbent banks' appetites for innovation are limited. Privately held banks that successfully execute on legacy financial products and offerings experience similar inhibitions to innovate for fear they will interrupt their current success. Incumbent banks can innovate and remove friction from the customer journey, as often takes place when an innovator is looking at a problem and how to solve it with a fresh perspective. For fintech companies with the objective to reduce friction and bring the underserved and underbanked more fully into the financial system, creating special purpose national bank charters for fintech companies provides a mainstream, regulated mechanism to achieve the goals of improved financial inclusion.

Fintech companies, like existing financial institutions of various sizes with national charters, are capable of managing the risks associated with the products and services they provide and should have appropriate oversight for that purpose. Of course, fintech companies should be required to demonstrate through the application process that risks of the products and services they offer can be managed at acceptable levels.

2. What elements should the OCC consider in establishing the capital and liquidity requirements for an uninsured special purpose national bank that limits the type of assets it holds?

The OCC should consider establishing capital and liquidity requirements that slightly exceed the capital and/or liquidity levels of the most stringent state that licenses fintechs as Money Service Businesses (MSB). The OCC could spur a great deal of innovation because fintechs could reasonably apply for and receive a special purpose charter instead of pursuing individual state licenses. For example, the Utah Department of Financial Institutions requires $1M in capital and a $50,000 bond for a fintech that applies for a state license. A fintech with a single banking license with appropriate capital and liquidity requirements that allowed it to operate nationally would substantially reduce the compliance burden imposed by the fintech's having to obtain 48 state MSB licenses.

Fintechs are not averse to regulation; however, only the largest fintech companies are able to handle the regulatory burden of complying with individual licenses from 48 states. It seems that minimum capital and liquidity requirements should be high enough to establish confidence in the fintech but not so high as to be out of reach of newer fintechs.

3. *A) What information should a special purpose national bank provide to the OCC to demonstrate its commitment to financial inclusion to individuals, businesses and communities?*

Can the OCC request this information of the fintech individually during the application process? With the rapid pace of technological innovation, fintech companies are identifying additional ways to improve the gathering and analyzing of information. The fintech could present these methods along with the evidence to support the conclusions.

B) For instance, what new or alternative means (e.g., products, services) might a special purpose national bank establish in furtherance of its support for financial inclusion?

There is a need to develop alternative products and services that serve the underserved and unbanked. However, development of products and services for this segment provides significant challenges; lightening the regulatory burden is one of many considerations. For example developing services for this segment will require a strong understanding of their needs and expectations, designing of the products and services to meet those needs and expectations, then coupling that with a business model to achieve sustainability.

A special purpose national bank can provide new payment methods that address the needs of the underserved and underbanked by removing barriers to access financial accounts, improve payment security, reduce payment costs, increase speed of clearing and settlement and offer increased convenience.

C) How could an uninsured special purpose bank that uses innovative methods to develop or deliver financial products or services in a virtual or physical community demonstrate its commitment to financial inclusion?

An uninsured special purpose bank using innovative methods to develop or deliver financial products or services in a virtual or physical community can demonstrate its commitment to financial inclusion by identifying measures of success that show increased inclusion in communities. The key idea is to use innovative technologies to improve financial inclusion without incurring the cost of developing branch locations in less-included communities.

4. Should the OCC seek a financial inclusion commitment from an uninsured special purpose national bank that would not engage in lending, and if so, how could such a bank demonstrate a commitment to financial inclusion?

Yes, the OCC should seek a financial inclusion commitment from an uninsured special purpose national bank that would not engage in lending. The OCC should request that the applicant demonstrate through the application process how it will demonstrate commitment to financial inclusion.

5. How could a special purpose national bank that is not engaged in providing banking services to the public support financial inclusion?

A special purpose national bank that is not engaged in providing banking services to the public can support financial inclusion by developing products and services that offer more consumer choice, an increased feeling of control, lower costs, improved security, improved access, and meet the expectations and needs of the less financially included.

10. Are there particular products or services offered by fintech companies, such as digital currencies, that may require different approaches to supervision to mitigate risk for both the institution and the broader financial system?

Yes, there are products or services offered by fintech companies that require different approaches to supervision to mitigate risk for both the institution and the broader financial system. These approaches could be understood and developed in connection with the applicants of special purpose national charter.

Sincerely,

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