

Remarks by
Thomas J. Curry
Comptroller of the Currency
Before
Chatham House ‘City Series’ Conference
“The Banking Revolution: Innovation, Regulation & Consumer Choice”
November 3, 2016

Good afternoon. I am happy to join you today. Chatham House has been an important forum for the frank discussion of financial policy for more than a decade. And, I am honored to join the list of distinguished guests who have participated before me.

As Comptroller of the Currency in the United States, I oversee 4,000 men and women who supervise the U.S. federal banking system. That system includes the largest internationally active U.S. banks, as well 1,200 community banks meeting banking needs in small towns across the country. Combined, these banks hold \$11 trillion in assets, *and* nearly every American has some relationship with at least one of the banks that my agency oversees. The U.S. federal banking system is strong and vibrant, *but* to remain capable of serving the changing needs and preferences of customers, banks—and the banking system—must adapt. At the OCC, we’ve coined the phrase, “responsible innovation,” to describe this process of using new or improved products, services, and processes to meet the evolving needs of consumers, businesses, and communities in a way that is safe, sound, and fair, and aligned with banks’ strategies. While it’s a new phrase, it’s not a new process. After all, banks have been innovating since the Sumerians

invented coinage and cuneiform script. A process that includes the founding of the “Old Lady of Threadneedle Street” in 1694 and the extraordinary financial productivity of London since.

So, what makes this moment different? And, are we—bankers and regulators—ready for our “Uber moment” as former Barclays CEO Antony Jenkins suggested a year ago when he spoke here at Chatham House?¹ Answering that question begins with understanding what he meant by “Uber moment.”

For me, Uber upended taxis around the world by making a few simple, but revolutionary, changes. First, they made it possible for almost anyone with a serviceable vehicle to be a “taxi.” Second, they gave customers greater value by offering more choice, control, responsiveness, and access by making payment easier. Taxis’ Uber moment was a choice among competing with the innovation, protecting the status quo, or becoming history.

Now, consider the transformation underway in the financial sector. In five years, investment in “fintech” has grown from \$1.8 billion to \$24 billion worldwide. The number of fintechs now exceeds 4,000 companies, in the United Kingdom and the United States alone. Last year, marketplace lenders originated nearly \$29 billion in the U.S.—a six-fold increase from 2013. If Uber turned your smartphone into a taxi dispatch, fintech is turning your phone into a financial advisor, a loan officer, a money transmitter, and an automated teller. While many of these innovations rely on banks and the banking system in important ways, others do not.

But, there is more going on than just technology. Demographic changes are influencing customer needs and expectations in dramatic ways. One of the most important changes involves the 85 million young adults in America and 14 million in the United Kingdom, known as millennials, who are entering the financial world. These consumers have the majority of their

¹ See <https://www.youtube.com/watch?v=sSXYOygXyg4>.

financial lives ahead. They are more open to new technologies and more willing to switch providers or use multiple providers to get what they want.

But, banks are *different* from taxis, *aren't they?* Banks provide the infrastructure for the global financial system. In a way, they are the taxis *and* the highways. Banks can be systemically important in ways taxis are not. Banks carry the stature of holding a national charter and are highly regulated. In the United States, the government insures their deposits and provides a liquidity backstop. Banks have strong capital regimes, liquidity standards, and stable sources of funding. Banks also have deep customer relationships, mature risk management, sophisticated marketing channels, and highly developed compliance functions. These differences make the analogy between banks and taxis far less than perfect.

I also think banks are *part* of the technological revolution in ways taxis resisted. Many banks have innovation laboratories of their own, are investing in promising startups, or collaborating in ways that creates synergy between fintechs and banks. This is a healthy process, and we are likely to see innovation converge into the banking system in ways that improve service and foster greater financial inclusion. We are also seeing that as some fintechs mature, they are recognizing that partnering with a bank or even exploring the idea of becoming a bank makes sense—despite their vocal opposition to the entire system a year or two ago.

While I believe banks will always play an important role in the economies of the world, there is a danger in concluding that what happened to taxis could *never* happen to banks. That's an important reason why the OCC committed to developing a framework to improve our ability to identify and understand trends and innovations in the financial services industry, as well as the evolving needs of consumers. Let me briefly update you on our progress.

Since last year, the OCC has developed a framework in a very transparent and deliberate manner. We conducted extensive research and held dozens of conversations with technology companies, banks, consumer groups, academics, and other regulators, including the U.K.'s Financial Conduct Authority. That work informed a paper we published in March that outlined the principles that guide our approach to innovation.² The principles include fostering a culture within the OCC that is receptive to new ideas and gives more open and thoughtful consideration of opportunities as well as risks. The principles make it clear that innovation can't be responsible if it abuses customers, violates good corporate governance, or fails to align to the long-term strategy of the bank. The principles also call on us to collaborate with industry and other stakeholders, as well as other regulators, to maintain an open dialogue so that we can see the road ahead more clearly. We then sought comment on our paper, published those comments,³ and held a public forum in June to hear more from stakeholders.⁴

At the forum, I announced a team dedicated to developing recommendations for implementing our framework, which I approved in October. The recommendations include establishing a central office dedicated to considering matters related to innovation affecting the federal banking system. The office will be the central point of contact and clearing house for requests and information related to innovation. It will conduct outreach and provide technical assistance, and promote awareness and training among agency staff to improve our capabilities and understanding of these important issues. It will hold office hours in cities with significant interest in financial innovation to make candid regulatory advice more accessible and to facilitate

² See *Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*. March 2016 (<https://occ.gov/publications/publications-by-type/other-publications-reports/pub-responsible-innovation-banking-system-occ-perspective.pdf>).

³ See <https://occ.gov/topics/bank-operations/innovation/innovation-comments.html>.

⁴ See "Videos of the OCC Forum on Responsible Innovation in the Federal Banking System" (<https://occ.gov/topics/bank-operations/innovation/innovation-forum-videos.html>).

an open conversation. And, it will lead our collaboration with other regulators, both domestic and international. The head of this new office will report to me and will be based at our Headquarters with staff in areas of the country known for innovation and technology. Standing up an office takes time, but we plan to have it up and running in the first quarter of 2017 and have appointed an acting Chief Innovation Officer to lead this effort. We are committed to being transparent in our work and will share more details as we progress. I expect the office to make a significant difference for our staff and the institutions we supervise.

Shifting gears a bit, I'd like to discuss two of the most frequent questions we grapple with regarding financial innovation—how companies can conduct pilots safely *and* whether to grant national charters to fintech companies conducting banking activities.

Pilot projects are important tools companies *should* use to test the viability of retail products and effectiveness of their systems before rolling them out more widely. Just how pilots should work is a matter of ongoing conversation, in the United States and here in the U.K. In fact, the FCA's approach to sandboxing and to fostering financial innovation generally has been helpful as we work through our own thinking.

Some of the discussion about pilots is whether regulators should create a "safe space" to allow companies to try out new products and processes without the risk of penalty if the trial runs afoul of consumer protection laws or other regulations. I do not support this approach. Waiving compliance with consumer protection or safety and soundness never makes sense, nor does our agency have the authority to *wave* compliance requirements. It is the company's responsibility to ensure products and processes are safe before rolling them out.

But, companies can conduct carefully designed pilots responsibly and limit their liability by controlling scope and duration and ensuring their tests are closely monitored throughout.

Having an open dialogue with regulators in developing a pilot also helps by encouraging product and system designers to ask the right questions as they determine a product's features and the parameters of the test. Working with regulators also helps regulators understand precautions that companies have taken to ensure new products and processes are safe and sound *and* meet consumer protection standards. Facilitating responsible pilots will be one of the many tasks of our innovation staff.

Whether to grant a national bank charter is another question, and one we are still working through. It is clear that the OCC has the authority to issue a charter to companies that engage in at least one of three core banking functions—taking deposits, paying checks, or lending money. And, it's clear that many fintechs perform these activities. Fintechs may also help expand financial inclusion, but their promise must be balanced with prudential regulatory concerns as well as consumer protection. We are still deliberating about whether it makes sense to grant a national bank charter to fintechs, and under what conditions. We plan to issue a paper soon to describe our thoughts on this important question and seek comment on our approach.

A lot of other people in the United States also have opinions about what *we* should do. Some suggest that national charters could ensure that fintechs receive rigorous, bank-like federal regulation and ongoing supervision. Others say national charters could help fintechs navigate the regulatory landscape by consolidating oversight, reducing licensing burden, and applying a uniform set of rules.

Still others express concerns that, if granted a limited charter, companies might face lighter supervision than they receive today and worry that fintechs may try to avoid consumer protections granted by state laws or federal laws that only apply to deposit-taking banks.

So let *me* be clear, if the OCC decides to grant a national charter in this area, the institution will be held to the same high standards of safety, soundness, and fairness that other federally chartered institutions must meet. Having a national charter has tremendous value, and because of that it carries certain responsibilities.

As we work through the chartering question, and think about what a banking system should look like in 10 or 15 years, we need to ask whether there is a place for financial companies that focus on certain aspects of banking. If so, we need a regulatory framework and supervision structure in place to make sure these companies operate in a safe and sound manner and comply with all applicable laws and regulations—regardless of who regulates them.

I hope you find value in the observations I've shared today just as I have learned so much from my conversations with you, the FCA, and our other international colleagues. Again, I am grateful to be with you today. Opportunities like this—to share experiences and exchange ideas—do not come frequently enough. With that, I would be happy to answer your questions.