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Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Re: Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective (NR 2016-39)

Ladies and Gentlemen:

PNC Bank, National Association (“PNC”) appreciates the opportunity to comment on the white paper issued by the Office of Comptroller of the Currency (“OCC”) entitled *Supporting Responsible Innovation in the Federal Banking System, an OCC Perspective* (“White Paper”). The White Paper defines “responsible innovation” and establishes guiding principles for the OCC to follow as part of its efforts to understand and evaluate innovation at national banks and in the broader financial system. We applaud the OCC for seeking comment on the White Paper and we support the OCC’s pro-active initiative to better understand developing trends in innovation in the financial industry and promote responsible innovation. We believe it is important for the OCC to maintain a culture and processes that support responsible innovation, as such innovation can provide important benefits to banks, the financial system, consumers, and businesses. We offer below some suggestions on how the OCC can successfully achieve the goals of the White Paper while avoiding creating processes that might unintentionally impede or delay banks from pursuing innovations in a responsible manner that are consistent with their risk appetites and business strategies.

National banks have long used improvements in technology to achieve breakthroughs in the delivery of credit, deposit and payments products and services that enhance the customer experience, create efficiencies, improve information and cyber security, and help institutions manage risks. Technological innovations have been at the center of some of the most important achievements in banking over the past 50 years. For example, technological innovations have allowed banks to make consumer credit more widely and easily accessible through better data analytics and the development of credit cards; facilitated more efficient and safer payments through the development of new payment products, such as debit cards, and payment systems; and made banking services more accessible to consumers and small businesses through the introduction of ATMs and online and mobile banking.

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Today, technology continues to drive the development and deployment of new products and services that are critical to meeting the expectations of customers who increasingly expect fast, secure, and easily accessible “digital” financial products and services. At PNC, we are focused on meeting the evolving needs and preferences of our customers in a responsible manner that is consistent with our risk appetite and business strategy. For example, technology lies at the heart of our award-winning Virtual Wallet[®], which combines a traditional deposit account package with online features that assist customers to in managing their spending and savings. We also are also investing in new, state-of-the-art data centers that will facilitate innovation through the creation of a more secure and agile technology environment and infrastructure. And we are actively supporting the development of P-to-P payment and real-time payment solutions through a variety of channels.

The need for national banks to vigorously pursue responsible innovation is perhaps more critical today than in the past. The explosive growth of firms delivering financial technologies (“fintech”) provides tremendous opportunities for banks to more effectively meet customers’ needs, enhance the accessibility of products and services across our communities, improve efficiencies, and manage and mitigate operational risks. Furthermore, responsible innovation enables banks to compete effectively with non-banks that are working hard to displace the traditional role that banks have played in the delivery of consumer and small business lending, investment advice and payment services. We believe it is important for banks to remain the cornerstone in providing these services for many reasons, including the strong focus of national banks under the OCC’s supervision on the maintenance of effective programs for compliance, risk management and cyber-security. We are concerned that non-bank fintech firms generally are not subject to the same supervisory and regulatory framework, including capital, liquidity and regular information security, cyber-security and consumer compliance reviews, as national banks. It also is crucial for banks to develop, improve and deploy technology effectively if they are to maintain relationships with existing customers, and establish long-lasting and deep financial relationships with new generations of customers, many of whom are adopting different ways to conduct financial transactions such as online and mobile services that do not require trips to brick and mortar branches.

The White Paper defines “responsible innovation” to mean “[t]he use of new or improved financial products, services, and processes to meet the evolving needs of consumers, businesses, and communities in a manner that is consistent with sound risk management and is aligned with the bank’s overall business strategy.” We are supportive of this definition, but note that responsible innovation also includes arrangements that improve efficiencies and enable national banks to reduce operational and other risks. In fact, much of the innovation offered by fintech companies involves the digitization and automation of processes that have long been manual. These innovations represent opportunities for banks to obtain greater control and oversight of processes, thereby reducing risk. We also strongly agree that responsible innovation should be supported by effective risk management and corporate governance.

At PNC, the adoption of innovative financial technologies involves the same rigorous review, approval and risk management framework as other business changes or initiatives.



Furthermore, our fintech initiatives and other efforts to pursue responsible innovation are consistent with our business strategy and risk appetite.

We applaud the OCC's focus on creating an internal culture that facilitates responsible innovation. In this regard, we support the establishment of a central resource within the OCC to monitor developments and act as a "lead expert" for financial innovation. This central resource could help staff across the agency more efficiently and effectively understand fintech and other technological developments, how those developments can be used responsibly by banks to improve the availability and accessibility of financial services in a safe and sound manner, best practices for identifying and managing any risks associated with those developments, and the potential impact of such developments on national banks, the financial system and consumers. The White Paper states that the OCC will bring together banks, nonbanks and other stakeholders in a variety of settings to promote responsible innovation, including sponsoring "innovator fairs" that will discuss regulatory requirements and supervisory expectations in the financial services industry. We support this outreach and constructive interaction among all stakeholders, especially when it encourages the advancement of responsible innovation among all financial participants. We look forward to participating in, and would be pleased to provide support for, these efforts.

In implementing its innovation initiative, we encourage the OCC to recognize the wide variety of ways that banks adopt financial technologies and partner with fintech firms to improve the way that banking and financial services are developed, managed and offered to customers. The White Paper notes that banks may adopt or develop innovations through relationships with laboratories and technology incubators, through consortiums and collaborative arrangements with other banks to share cost of developing technologies, and by partnering and investing in fintech companies. Similarly, it is important for the OCC to recognize that national banks often develop technologies, and work with vendors to deploy new technologies, in the ordinary course of business. In many cases, innovation may involve simply the deployment of new technology to improve the delivery or reduce the cost of an existing product or service, speed up or improve the efficiency of an established process, or incrementally expand the product or service offerings of an existing business that, in each case, is consistent with the institution's risk appetite and business strategy. In many of these cases, no formal OCC approval or notice is required under the OCC's rules, although we would, as always, expect to review any material business developments with our local OCC supervisory team. We believe that such a tailored approach to the review of innovation initiatives at banks is appropriate, as it allows any OCC review to be calibrated appropriately to the scope and nature of the initiative and its consistency with the institution's risk appetite, business strategy and risk and compliance management programs. In this regard, we strongly encourage the OCC to avoid creating processes or expectations that may unintentionally impede banks from pursuing responsible innovation or unduly delay or slow down technological development, especially when those efforts are consistent with safety and soundness and are developed and implemented in accordance with consumer protection laws and requirements.

The White Paper also discusses the possibility of banks using test or pilot programs to assess the benefits, costs and efficacy of innovation on a small scale. We believe pilot programs can be highly useful by allowing banks to test innovations on a small scale with limited risk



exposure and, thereby, help management gain experience prior to deciding whether, or how, to proceed with the innovation on a larger scale. We encourage the OCC to ensure that banks have the flexibility to move forward with pilot programs that present limited risk and are structured to ensure compliance with applicable laws and regulations, including consumer protection laws.

PNC appreciates the opportunity to provide comments on the White Paper. As the OCC continues to develop its support for responsible innovation, PNC stands ready to serve as a resource for the agency. Please do not hesitate to contact me for further information or if you have any questions.

Sincerely,

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Michael P. Lyons