

FDIC to launch innovation office to help banks compete with fintechs

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Published **October 23 2018, 5:36pm EDT**

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WASHINGTON — The Federal Deposit Insurance Corp. will set up an office of innovation to foster a more welcoming environment for banks to adopt financial technology changes, the agency's chief said Tuesday.

FDIC Chairman Jelena McWilliams told an American Bankers Association conference in New York that federal bank regulators could do a better job of encouraging institutions to innovate, which is partly why the most dynamic changes are occurring outside the banking industry.

"We have created the regulatory framework where we have actually discouraged banks from innovating for a number of years," McWilliams said. "So innovation has been happening outside of the banking primarily and a very small percentage of it has happened within the community banks in particular that don't have the resources, nor are they able to enforce the compliance mechanisms in place that would be needed where the regulators would look positively at innovation."



"We have created the regulatory framework where we have actually discouraged banks from innovating for a number of years," said FDIC Chairman Jelena McWilliams.

Bloomberg News

An FDIC innovation office would come on the heels of other banking agencies establishing tech-focused units. The Office of the Comptroller of the Currency has developed a limited-purpose charter for fintech firms, and the Consumer Financial Protection Bureau's [Office of Innovation](#) has proposed a "disclosure sandbox" to test new forms of customer communications.

McWilliams said the FDIC currently has the ability to look at innovation in three ways. The first is through the industrial loan company, a specialized banking charter supervised by the FDIC that has already drawn [some interest but also some hesitation](#) from fintech firms. The second is how the FDIC regulates banks' third-party vendor relationships. The third is by working with technology companies to get better processing, service and efficiency at banks.

McWilliams said she was concerned that the FDIC has been looking at innovation in a fragmented manner, and she hoped for the agency to take a more holistic approach.

"How can we encourage banks to innovate? How can we bring that within the banking sector?" McWilliams said.

McWilliams' remarks, which came in a Q&A format with ABA chief executive Rob Nichols, also touched on the rulemaking process. She encouraged individual banks to tell their stories by issuing their own comment letters, rather than just endorsing letters sent by trade groups on their behalf.

"If you want to sign onto the trade association's letter, that's great. If you want to send your personal letter, it doesn't have to be comprehensive. It can be two paragraphs," McWilliams said. "We will log it in as a separate letter. We will discuss it internally. That letter will probably rise to my level attention and the senior staff at the FDIC. So I would strongly encourage you to send us your stories in your letter.

"I like to say every person has a story. Not every person is a good storyteller. Every bank has a story and even if you're not a good storyteller, send the letter in because we do care and the personal perspective that we get from bankers who know their communities are very valuable for us."

She also discussed efforts by the bank regulators to modernize the Community Reinvestment Act. While the law traditionally assesses banks reinvestment activities based on their branch network, McWilliams' said banks' footprints have changed enough that they need to "accommodate ... the digital channels."

Speaking with reporters after giving her remarks, McWilliams expressed hope that the FDIC, OCC and Fed will come together on a joint CRA proposal. She said the OCC's decision to issue its own set of CRA reform questions for public comment — which stoked speculation about interagency disagreement — was understandable since, unlike the FDIC, Comptroller of the Currency Joseph Otting does not answer to a board.

"It made sense for him to go first versus us holding him up in the board process, and then once the comments come in, we all take a look at it ... and then hopefully move on together at the next stage," McWilliams said.

When asked by Nichols what she is most concerned about, she mentioned cybersecurity threats.

"What happens to us if we have a massive breach? What happens to our institutions if we have a breach?" McWilliams said. "Can the weakest member afford the same level of protection?"

She also emphasized that one of her first initiatives at the FDIC was to make the agency's processes more transparent, including making the metrics for performance and examinations publicly available.

"If we are doing everything right, there is nothing to hide," she said. "My perspective is the more we put out there the better."

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