

STATEMENT OF

the

FEDERAL DEPOSIT INSURANCE CORPORATION

on

**“OVERSEEING THE FINTECH REVOLUTION: DOMESTIC AND INTERNATIONAL
PERSPECTIVES ON FINTECH”**

before the

TASK FORCE ON FINANCIAL TECHNOLOGY

of the

**COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES**

June 25, 2019

2129 Rayburn House Office Building

Chairman Lynch, Ranking Member Hill, and members of the Task Force, the FDIC appreciates the opportunity to submit this statement for the record for your hearing, entitled “Overseeing the Fintech Revolution: Domestic and International Perspectives on Fintech Regulation.”

Technological changes in financial services are not new. ATMs and mobile banking are just two examples of how innovation and technology have transformed access to banking services and banking itself during our lifetimes. Today, innovation and technology have the potential to change how banks satisfy the needs of their customers by introducing new financial products and services, increasing access to affordable financial services, improving the regulatory and oversight process for banks, and contributing to safety and soundness.

The FDIC supports innovation in the financial services industry. FDIC Chairman Jelena McWilliams has put the agency at the forefront of this movement with last October’s announcement of a new organization within the FDIC – the FDIC Tech Lab, or “FDiTech.” The FDIC is in the process of recruiting a Chief Innovation Officer and laying the legal and operational foundation for FDiTech.

FDiTech will promote the adoption of innovative and transformative technologies in the financial services sector, help the FDIC better understand how innovation can contribute to the expansion of banking services to the unbanked, underbanked, and individuals in underserved communities as well as promote the adoption of technology that can help community banks compete in the modern financial market place.

Although FDiTech is just getting started, we have already taken steps to increase coordination and cooperation with technology firms, our fellow regulators, and the institutions we oversee. FDiTech will bring a renewed focus to these topics with a mandate to engage banks

and technology providers and to encourage the adoption of technology throughout the sector in a manner that promotes safety and soundness and consumer protections. The FDIC looks forward to continued collaboration with the Committee and this Task Force as FDiTech is established.

Using Technology to Meet Consumers' Needs

Overcoming challenges to economic inclusion is vital to the FDIC's mission to maintain public confidence in the financial system. The FDIC's most recent "Survey of Unbanked and Underbanked Households" shows that more than 8 million households do not have any relationship with the banking system.¹ Another 24.2 million households are underbanked, meaning they have a bank account but go outside of the banking system to satisfy some of their financial service needs.² Unbanked and underbanked rates are higher among lower-income households, less-educated households, younger households, black and Hispanic households, working-age disabled households, and households with volatile income. In short, millions of Americans are missing out on the important benefits banks provide, including access to credit, wealth-building opportunities, and the protection provided by deposit insurance.

Innovation and technology have the potential to provide important inroads to reach these consumers. The key customer-centric features of digital banking, such as online banking or mobile financial services applications, are affordability, convenience, and real-time access to information. These features not only enable consumers to understand their financial standing in real time, as well as plan for long-term goals and unexpected emergencies, but they also encourage wider adoption and promote financial access and inclusion.

¹ See Federal Deposit Insurance Corporation, "2017 FDIC National Survey of Unbanked and Underbanked Households," (October 2018), available at <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>.

² *Ibid.*

Using Technology to Improve the Supervisory Process

With the potential for so much change, it is incumbent upon the FDIC to understand how emerging technology can improve the FDIC's approach to supervision. In March, the FDIC held the inaugural meeting of the Subcommittee on Supervision Modernization for the Advisory Committee on Community Banking.³ This subcommittee was established to support the FDIC's longstanding Advisory Committee on Community Banking and will consider ways in which the FDIC can leverage technology and refine processes to make the examination program more efficient, while managing and training a geographically dispersed workforce. The subcommittee is expected to hold three more meetings in 2019 and utilize conference calls or smaller group briefings to supplement its in-person discussions over the course of the year.

The FDIC is also in the process of developing and implementing updates to its information technology systems to bring much needed improvements to the systems that banks and non-banks use to interface and exchange information with the FDIC. There are multiple projects in various states of development, and over the next 18 to 24 months the FDIC plans to deploy technology improvements to deliver modern features and capabilities to improve the speed, reliability, and overall user experience for FDIC-supervised entities. Feedback on these improvements has been favorable, with bankers commenting that the new systems are "intuitive," "simple," and "night-and-day" improvements over the previous systems.

Technology and the Business of Banking

Technology is transforming not only how consumers access financial services, but the business of banking itself. For example, data analytics and artificial intelligence have the

³ See FDIC Press Release: FDIC's Subcommittee on Supervision Modernization for the Advisory Committee on Community Banking Holds its Inaugural Meeting, PR-16-2019 (March 6, 2019), available at <https://www.fdic.gov/news/news/press/2019/pr19016.html>

potential to help banks develop new approaches to assess credit risk. Analytical tools are enabling banks to better understand customers' needs and design more affordable, personalized products and services.

Much financial technology has been developed outside of the traditional banking system, driven by venture capital startups and emerging companies. A number of banks, particularly smaller institutions, have begun to embrace technology, and this has required a fundamental rethinking of how they interact with the technology industry.

The FDIC is particularly interested in being a bridge between technology companies and the banking sector to create an environment where innovation can thrive. This can be particularly meaningful for community banks, which may have limited resources to develop technology on their own.

The FDIC's Role in Fostering Innovation

The FDIC can foster innovation, while simultaneously protecting consumers, markets, and the Deposit Insurance Fund.

As the fintech environment has matured, the pace of change has increased. Federal financial regulators have begun to take stock of regulatory impediments to innovation that might ease compliance burden, make supervision more efficient, or give the unbanked and underbanked better access to the banking system. For example, on December 3, 2018, the FDIC, along with the other federal depository institution regulators and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN), issued a *Joint Statement on*

Innovative Efforts to Combat Money Laundering and Terrorist Financing.⁴ This statement encourages banks to consider responsible, innovative approaches to meet their Bank Secrecy Act/anti-money laundering compliance obligations. As this example demonstrates, regulators are mindful that their approach to oversight and regulation can affect the extent and speed of implementing financial innovation, and are striving to be forward-thinking, while maintaining the necessary protections of underlying regulations.

Although the FDIC is still in the process of standing up FDiTech, significant resources have already been dedicated to identify and understand emerging technological developments and their impacts on insured depository institutions, their customers, and the financial system overall. The FDIC approaches innovation with four fundamental questions:

1. How can the FDIC provide a safe regulatory environment to promote the technological innovation that is already occurring?
2. How can the FDIC promote technological development at our community banks with limited research and development funding to support independent efforts?
3. What changes in policy – particularly in the areas of identity management, data quality and integrity, and data usage or analysis – must occur to support innovation while promoting safe and secure financial services and institutions?
4. How can the FDIC transform – in terms of our technology, examination processes, and culture – to enhance the stability of the financial system, protect consumers, and reduce the compliance burden on our regulated institutions?

The FDIC is examining trends in retail financial markets, including marketplace and digital lending, digital payments, machine learning and artificial intelligence, big data, open

⁴ See “Bank Secrecy Act: Interagency Statement on Innovative Efforts to Combat Money Laundering and Terrorist Financing” (FIL-79-2018), (December 2018), available at <https://www.fdic.gov/news/news/financial/2018/fil18079.pdf>.

banking, consumer-permissioned data sharing, and application programming interfaces. The agency is also monitoring developments in the wholesale financial markets, such as changes to payment systems, distributed ledger technology (e.g., blockchain), smart contracts, and digital assets. Over the last several years, this work has been overseen by the FDIC's Emerging Technology Steering Committee, which is comprised of senior leadership across the FDIC.

To gain a better understanding of these issues, the FDIC has engaged extensively with stakeholders, including financial institutions, consumer groups, trade associations, and technology companies on a variety of innovative, technology-driven products and services. In addition, through our ongoing supervisory processes, the FDIC regularly reviews supervised institutions' uses of technology. This includes innovations developed by FDIC-supervised institutions themselves, as well as activities conducted through their relationships with third parties.

To ensure a coordinated approach, the FDIC regularly engages in collaborative discussions with relevant financial regulators on these topics through venues like the Federal Financial Institutions Examination Council (FFIEC), Financial Stability Oversight Council (FSOC), and Interagency Fintech Discussion Forum.

On the international front, the FDIC is part of the Basel Committee on Banking Supervision's Task Force on Financial Technology. The Task Force's work resulted in the publication of "Sound Practices: Implications of fintech developments for banks and bank supervisors,"⁵ which assesses how technology-driven innovation in financial services may affect the banking industry and the activities of supervisors in the near- or medium-term.

⁵ Basel Committee on Bank Supervision, "Sound Practices: Implications of fintech developments for banks and bank supervisors," (February 2018), available at <https://www.bis.org/bcbs/publ/d431.pdf>.

On April 24, 2019, the FDIC, in partnership with Duke University, hosted a research and policy conference on financial technology and the future of banking. Prominent academic experts delivered presentations on technology’s impact on lending, financial advice, and competition.⁶ Senior leaders in the financial industry and financial policy experts shared their views on these topics as well. The event drew more than 300 representatives of banks, nonbank financial companies, technology service providers, federal regulatory agencies, other government agencies, Congress, nonprofit organizations, and research institutions.

FDIC Tech Lab

As previously noted, the FDIC is launching a new internal office to focus on innovation and technology (i.e., the FDIC Tech Lab, or “FDiTech.”)

FDiTech’s goals are to engage and collaborate with innovators in the financial and nonfinancial sectors to identify, develop, and promote technology-driven solutions that:

- Improve the safety and soundness of FDIC-insured institutions,
- Support the development and adoption of innovative financial products and services,
- Increase economic inclusion and consumer benefits,
- Promote competition,
- Support the early identification of risk at financial institutions or in the financial system, and
- Facilitate the efficient resolution of failed financial institutions, when that is needed.

To further its mission and within FDIC’s authorities under the FDI Act, FDiTech will engage directly with innovators and community banks around the country and sponsor or co-sponsor

⁶ See Fintech and the Future of Banking, (April 24, 2019), available at <https://www.fdic.gov/bank/analytical/fintech/agenda.html>.

“tech sprints” to promote innovation and find solutions to challenges facing consumers and the industry. For truly innovative and new technologies, the FDIC may also conduct voluntary pilot programs, in cooperation with our regulatory partners in the states, to help community banks test new products and services within legal and regulatory parameters.

Conclusion

Too often regulatory agencies play “catch up” with technological advancements and their impact on regulated entities and consumers. The FDIC’s goal is to reverse that trend through increased collaboration and partnership with the industry. Working together, the FDIC can help increase the velocity of transformation, while ensuring that banks continue to operate in a safe and sound manner and consumers remain protected.