Remarks

By

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Good morning and thank you for that warm introduction. It is an honor to be here in Vilnius to share my thoughts on financial technology and the future of banking. I want to thank Lithuania's Minister of Finance, Vilius Šapoka, for inviting me to join you. It was my pleasure to meet the minister when he was in the United States. I congratulate him and everyone involved in hosting this event on its great success.

I was proud to accept the invitation to speak while I was serving as the Acting Comptroller of the Currency and am happy to share my perspective now as a private citizen following the completion of my term as Acting Comptroller earlier this week. My views are my own based on my experience, and I wish the 31st Comptroller of the Currency Joseph Otting great success over the next five years of his term.

With more than 400 fintech companies attending today, this event demonstrates Lithuania's leadership not only in Europe but globally when it comes to supporting the entrepreneurial spirit and nurturing the creative and productive advantages of individual autonomy and a free market economy. The event also shows the potential for Lithuania to

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become an even more important hub for innovation and finance in Europe. I share your pride in this success of Lithuania, as I come from a family of Lithuanian descent from the Kaunus area.

The people of Lithuania do not take independence, freedom, or a free market economy for granted as evidenced by several historical events. Your will to freedom is centuries old. On February 16, 2018, you will celebrate the centenary anniversary of your restored statehood following the end of World War I. And, just a generation ago, you regained your independence as a nation when Lithuanians displayed courage and resolve by adopting the "Act on the Restoration of the Independent State of Lithuania." This bold move came a year before the USSR had officially dissolved and threw off the chains of more than five decades of Soviet occupation. Today, the country is still reinventing its market economy and continuing to improve its system of law that protects private ownership and individual self-determination. I can only imagine how joyous the celebrations will be next year.

You also celebrate your pride in being integral *to* the European Union, and yet the flame of independence here burns brightly. You innately understand that expressing your freedom never impinges on the freedoms of another. The people of Lithuania understand that individual freedoms fuel ideas and that, over time, those ideas accumulate for the greater good of society. Freedom, here, is more than an abstract concept. It means the ability to travel freely and conduct foreign trade. It is symbolized by the Euro coins minted here that bear the likeness of knight Vytis, "the Chaser," that circulate freely throughout the continent. The Nobel-winning economist F.A. Hayek, in his classic work on individualism, saw such freedoms as foundational to the other economic and personal liberties we enjoy.[2]

[2] F.A. Hayek. *The Road to Serfdom. The Definitive Edition*. Edited by Bruce Caldwell. The University of Chicago Press. 2007.

In the short time since regaining independence, the almost three million people in this country have grown their nation's annual gross domestic product to more than $82 billion, making it the largest and most financially productive economy of the three Baltic states. It is no wonder that earlier this year the Heritage Foundation in my country ranked Lithuania just ahead of the United States when it comes economic freedom.[3]

In many ways, the entrepreneurial spirit of fintech companies here and around the globe also reflect the desire for human freedom and the will to self-determination. These companies' founders frequently speak of a "revolution" over traditional banking and the power and dominance of banks. They champion an idea and leverage their individual intellectual capital to turn that idea into a profitable reality. At a simple level, fintech companies are working to make the storage and exchange of value more efficient. They accelerate the speed of money, enabling new ways to conduct commerce.

The fintech companies that succeed appear most often to be the ones that empower consumers with greater control over their financial lives and deliver tools that allow individuals to exercise their economic freedom. Make no mistake, the fintech company is a business motivated by value and profit, but it achieves that profit by delivering value to its customers in the forms of convenience, speed, and empowerment. These are big ideals, manifest in each one of the fintech companies here today.

As big as these ideals are, and as romantic as it is to talk of *revolution*, I view all of this as rather the logical *evolution* of banking and three core banking functions—paying checks, accepting deposits, and lending money. Rather than replacing banks, the technology and innovation developed and propagated by fintech companies will eventually find equilibrium

[3] See http://www.heritage.org/index/country/lithuania.

*within* the global financial system, making banking—and banks—more effective and efficient. Part of the banking regulators' job in the United States is to support and encourage responsible innovation that helps banks better satisfy the financial needs of their customers, businesses, and communities. For the remainder of my time this morning, I want to share a little more about the work that the Office of the Comptroller of the Currency is doing in this important area in the United States.

Before describing some of the ways that the OCC, as it is known, is working to promote innovation, it would be useful to share a little about the agency that I recently oversaw in the United States. The agency was founded in 1863 by President Abraham Lincoln to administer and oversee a nationwide system of banks within the United States. Today, the agency supervises nearly 1,400 banks and savings associations with nearly $12 trillion in assets. These banks include the largest and most internationally active U.S. banks, such as JPMorgan Chase and Citibank, but the vast majority are relatively small community banks that serve local and regional banking needs in towns across the country. One hallmark of the system's success is its diversity and ability to adapt to the evolving needs of the market and its customers as new technologies mature and business changes.

The banking system in the United States has been a laboratory of innovation and technology for more than 150 years. Establishing a single national currency was revolutionary when President Lincoln conceptualized the U.S. national banking system during our Civil War. In a way, that was an historical antecedent of replacing nation-state currencies with the Euro here. The checking account and later the credit card were giant leaps forward that empowered consumers and businesses and helped fuel commerce nationally. Then, ATMs gave us global access and control over our bank accounts 24 hours a day. That same capability is now being replicated on your smartphone, and it is occurring on a global basis. It is my belief that all of the innovation we are witnessing today is just the beginning of what can be done. It is impossible to speak of financial innovation without considering its global implications, because technology is eliminating financial borders and barriers, giving "money" greater freedom.

That innovation is adding up to a significant share of the market, particularly for unsecured consumer credit, student lending, and small business lending. Over the last decade, U.S. marketplace lenders, which represent only one part of financial technology innovation, have originated about $40 billion in consumer and small business loans in the United States.[4] Online lending doubled each year from 2010 through 2015.[5] Can it continue to grow at that pace? Analysts differ on the answer to that question. Some suggest that the market will reach nearly $300 billion by 2020, and others suggest as much as $1 trillion by 2025. This volume would be a substantial piece of all outstanding unsecured consumer credit in the United States, which alone was $3.7 trillion at the end of 2016.[6]

I am very optimistic about the power of innovation to improve banking, expand access and financial inclusion, and deliver better products and services in more affordable and sustainable ways. While much of the innovation comes from within the banking system itself, other innovations come from outside the system—from companies like yours. The OCC's work related to fintech and innovation is intended to ensure that banks and savings associations in the United States have a regulatory framework that is receptive to responsible innovation and the supervision to support it. The work also ensures that companies outside the banking system

[4] Stephen Fromhart. Marketplace lending 2.0: Bringing on the next stage of lending. Deloitte Center for Financial Services. March 2017.
[5] "Can P2P Lending Reinvent Banking?" Morgan Stanley. June 17, 2015 (https://www.morganstanley.com/ideas/p2p-marketplace-lending).
[6] Fromhart.

understand the rules and expectations when partnering with or providing services to highly regulated banks. Since formally beginning that effort in 2015,[7] the agency has published practical guiding principles,[8] held a public forum,[9] and established a framework to support responsible innovation in the federal banking system.[10]

To administer this framework and serve as the focus of the work in the area, the previous Comptroller, my predecessor at the OCC, created an Office of Innovation, which has been up and running since January 2017. The office serves as a clearinghouse for innovation-related matters and a central point of contact for OCC staff, banks, nonbank companies, and other industry stakeholders. Within the agency, the office has worked to raise awareness and understanding of emerging trends and issues among OCC staff. The office has published guides and reference materials for staff, community banks, as well as fintech and other nonbank entities.[11]

Externally, the office conducts a variety of outreach activities. One involves hosting "Office Hours" in financial innovation hubs throughout the United States. During those meetings, team members hear from banks exploring potential innovations, companies seeking to work with banks, and more than a few companies interested in becoming national banks. These meetings also allow the agency to share its perspective early in the development process. Many of the companies the OCC met with during my time there have global businesses, particularly in

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[7] Remarks by Comptroller of the Currency Thomas J. Curry before the Federal Home Loan Bank of Chicago. August 7, 2015 (https://www.occ.gov/news-issuances/speeches/2015/pub-speech-2015-111.pdf).
[8] *Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*. March 2016 (https://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-responsible-innovation-banking-system-occ-perspective.pdf).
[9] See https://www.occ.gov/topics/responsible-innovation/innovation-forum-videos.html.
[10] *Recommendations and Decisions for Implementing a Responsible Innovation Framework*. October 2016 (https://www.occ.gov/topics/responsible-innovation/comments/recommendations-decisions-for-implementing-a-responsible-innovation-framework.pdf).
[11] See "Responsible Innovation" on OCC.gov (https://www.occ.gov/topics/responsible-innovation/index-innovation.html).

Asia and Europe. In the discussions with these companies, experts from the OCC give these firms the assistance they will need to operate more effectively within the U.S.'s regulatory structure and rules. It also helps ensure that the agency continues to understand the global business environment. The office has already become a valuable resource for national banks and federal savings associations, and its utility will only increase over time.

One topic that has been talked about on an international level involves the notion of "regulatory sandboxes" or "pilots." I understand the appeal and why many regulators around the world are considering setting up sandboxes and conducting pilots. In theory, a regulatory sandbox or pilot program can provide banks and other innovators a safe place to develop and test new products and services in a controlled environment. I believe pilots *can* be useful tools for the regulatory agency and industry. Pilots can accomplish the same goals as what others call "sandboxes," without implying safe harbor and total freedom from rules. Pilots *can* allow regulators to gain insight into a product and become comfortable with a proposed product's controls and risks early, *before* the firm makes a significant investment and commitment to produce the product or roll out the service on a large scale.

Information gathered in the pilots also can inform agency policies and help make sure that regulators are ready to supervise the new activity when rolled out on a larger scale. Any program put in place should be voluntary for banks and would not provide a safe harbor from compliance requirements.

Another aspect of my former agency's work that generated a lot of interest is the idea of granting federal charters, or licenses, to fintech companies that want to become banks and operate on a national scale within the United States. In the U.S., we have a dual banking system that includes state-chartered banks that operate in one state or region, and we have national banks chartered by the OCC that operate across the entire country, which is a significant difference in a country as large as the United States. National banks operate under a single uniform regulatory framework and are subject to the supervision of one primary prudential regulator—the OCC. State banks are subject to state laws, the supervision of at least one state supervisor, and either the Federal Deposit Insurance Corporation or the Federal Reserve Board.[12] Each type of charter presents its own set of unique business advantages, but the inherent appeal of a national charter is obvious.

For nearly a year, the OCC has been weighing whether to grant a national charter to nondepository fintech companies engaged in the core businesses of banking. On face value, it makes perfect sense. Companies that offer banking products and services *should* be allowed to apply for national bank charters so that they can pursue their businesses on a national scale if they choose, *and* if they meet the criteria and standards for doing so. Providing a path for these companies to become national banks is pro-growth and in some ways can reduce their regulatory burden. That option should exist alongside other choices that include becoming a state bank or operating as a state-licensed financial service provider, or pursuing some partnership or business combination with existing banks or financial service companies.

While charters would provide significant value to the companies that receive them, the supervision that accompanies becoming a national bank would help level the playing field for others in meaningful ways. The OCC has made it clear that fintech companies that may eventually receive a federal charter would be regulated and supervised like similarly situated national banks. That supervision and regulation includes regular examination, capital and

[12] The Federal Deposit Insurance Corporation serves as the primary federal regulator for state-chartered banks that are not members of the Federal Reserve System. The Federal Reserve serves as the primary federal regulator of state-chartered banks that are members of the Federal Reserve System.

liquidity standards, and, where appropriate, reflects an expectation regarding financial inclusion. The OCC's approach to innovation has the virtue of bringing technology-oriented financial companies that provide banking services out of the shadows and into a well-established supervisory and regulatory regime. Such oversight will promote their safety and soundness and allow the U.S. federal banking system and its customers to benefit from their inclusion. The news that a federal charter means greater regulation has not been popular with all fintech companies, but it is the cost of becoming a national bank and gaining the market advantages that come with that. The new Comptroller will determine whether the OCC moves forward with offering special purpose charters to nondepository fintech companies.

I want to close by sharing my optimism for banking and financial technology. The future is bright. In five years, the future may not look as we expect it to, but I have every confidence that the system as whole will serve a broader audience with tools and services that deliver greater value than those we enjoy today. *You* are changing how financial services are delivered, and in some ways, you are raising the bar for what customers of financial services should expect. The market internationally has plenty of room to grow. Those are good reasons to be optimistic.

Again, I want to thank the organizers of this event, and particularly Minister Šapoka, for the invitation and hospitality.