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Fintech's Impact on Consumers, Banking, and Regulatory Policy

Thank you, Bill. And congratulations to you, President Harker and all at the Philly Fed on the launch of your new Consumer Finance Institute. America's banks agree that it's vital to understand how consumers spend, save and borrow, and we welcome research that helps inform both business and policy decisions in this space.

No doubt this gathering will also help inform business and policy decisions surrounding fintech, and I thank you for hosting it. Like other areas of technology, fintech is evolving at such a pace that it's a challenge to absorb its potential impact on banking, consumers and regulatory policy.

This phenomenon is explored in depth in a recent book titled *Thank You for Being Late,* by Tom Friedman. Relaying a conversation he had with Astro Teller, the head of X, Google's R&D arm, Friedman notes that all institutions, from universities to government regulators, must be as innovative as the innovators.

Teller tells Friedman that the time of static stability has passed and that we need to learn to live in a new state of "dynamic stability" – the kind of balance you get when riding a bike, not trying to stand still on one.

So it's important we have opportunities such as this conference to discuss the implications of the technology that is transforming the banking experience. And to help shape a new “dynamic stability” that ensures banking remains both responsive and resilient in the face of change. Gathering representatives of the fintech industry, academics and regulators together in one place ensures that an appropriate diversity of perspectives will enrich this very important discussion.

BANKS ARE INNOVATING

I can’t begin a discussion about fintech’s impact on banking without first noting that banking has its own history of fintech. As I like to say, banks were fintech before fintech was cool!

Banks large and small, past and present, have transformed the banking and payments experience through innovations like the credit card, ATM, internet and mobile banking, online bill pay and remote deposit.

And they continue to invent new ways to deliver both safety and convenience today. Capital One, for example, was quick to integrate with Amazon’s Alexa to allow customers to manage their bank accounts and pay their credit cards by virtual assistant. Bank of America is expected to soon debut its own chatbot, Erica, an artificial intelligence-powered digital assistant that will engage with customers through the bank’s mobile app. It will not only be able to conduct transactions but also make personal finance suggestions.

Several banks – from those with $1 trillion in assets to $10 billion to $1 billion – have also invested in innovation labs to nurture their own disruptions. Portland, Oregon-based Umpqua bank, which redefined their customers' in-person experience at a branch by converting them to 'stores" that today host meetings, book clubs and even yoga, has taken that same pioneering attitude to the digital world of banking. It launched Pivotus Ventures, a group that aims to use the power of a startup model to build transformative tools that will be used by established financial institutions.

Live Oak Bank in Wilmington, North Carolina, was the force behind nCino, a company that now sells its cloud-based streamlined Bank Operating System to other banks to help them increase loan volume, shrink closing times and improve compliance.

And Boston-based Eastern Bank is now renewing its commitment to innovation, having recently spun off its first innovation lab following great success in developing a lending platform that the bank – and now other banks – use to make small dollar commercial loans in real time while maintaining the bank's credit standards.

Not all banks can make such a commitment to developing new technologies in house. Fortunately, there is a vibrant startup ecosystem looking to digitize the banking experience. With thousands of fintech startups across the globe – and more than $70 billion of venture capital invested in fintech firms in North America alone since 2013 – innovations are happening fast.

This growth is often framed as a competition – fintech versus banks. But ABA and our member banks view the proliferation of fintech providers more as opportunity than threat. In fact, we are actively seeking ways for our members to partner with these companies to make operations more efficient or to better serve customers, making their financial lives simpler and safer.

For example, we've pointed our members to personal financial management software from a company called Geezeo that enables them to offer customers a holistic view of their assets, liabilities, cash flow, goals and budgets.

We've also examined several digital lending platforms and have so far recommended white-label solutions from companies like Akouba and LendKey that allow banks to originate small business and consumer loans online. More ABA recommendations for digital lending partners are in the pipeline.

Looking forward, we have invited five technology companies to take the stage next month at our Annual Convention to demonstrate the technologies that will shape banking over the next ten years. Banking 2027, we call it.

CUSTOMER-DRIVEN INNOVATION

It is important to note that the innovations banks seek are purpose-driven. We believe successful, worthwhile innovation starts with customers. It is their wants and needs that must drive solutions.

This means we take a more measured approach to innovation, but we believe that's a good thing. The motto of disruptors is to move fast and break things, but that's not a philosophy most bank customers – or regulators – want to see in their bank.

Yes, we must be agile and responsive. And we cannot be afraid to experiment. But we also must preserve our customers' trust, which is a bank's most valuable asset.

Sensitivity to this has helped make banks, in survey after survey, the most trusted when it comes to safeguarding personal information.

So naturally banks want to move thoughtfully into the future, ensuring they are meeting customer demands in a way that offers both convenience and safety. One of the industry's most recent innovations offers an excellent example of that approach.

Six years ago, a group of banks of different sizes set out to create a person-to-person payment platform that would make it easier and faster for customers to send a receive money within the security of their financial institution.

The network – Zelle – launched this year, making near-instant P2P payment services available to more than 86 million mobile banking consumers, with more coming on daily as additional financial institutions join the network. This inclusive industry solution will allow widespread adoption, providing healthy competition in the P2P marketplace.

CONSISTENT REGULATION

Putting the customer first is not only the first rule of effective financial innovation. It also must be the starting point for effective financial regulation.

Customers deserve consistent protections when they receive financial services; a loan is a loan no matter who provides it and should be regulated accordingly. That means companies that want to act like a bank must be willing to be regulated and supervised like one.

This is a principle long held by ABA, and it's one we reiterated in a letter on the OCC's proposed fintech charter earlier this year. In that letter we explained that such bank charters must carry the same responsibilities, from capital and liquidity requirements to consumer protection rules to anti-money laundering and financial inclusion obligations that are equivalent to those in the Community Reinvestment Act.

The very title "bank" carries significant weight in the mind of customers. It's a clear signal that customers are dealing with a trusted provider. Any fintech company that is granted a national bank charter will receive the instant credibility that comes with being a bank. Likewise, any missteps by a fintech company operating through a national bank charter will inevitably reflect on all banks. This is why we appreciated the patient, careful and transparent process that the OCC has taken.

While some, perhaps reflexively fearful of the potential impact on competition, criticized the idea, ABA's banker leaders thoughtfully evaluated it and offered conditional support to the extent that any such bank must abide by the same consumer protection rules and have equivalent charter responsibilities as other banks.

This should not come as a surprise. ABA has always been a vocal proponent of new bank charters and charter choice. De novos represent entrepreneurial activity in banking and signal the industry's vitality. A dearth of de novos bodes poorly for the industry and the communities served by regulated financial institutions.

The fact that some fintech companies like Varo Money are applying to become a bank demonstrates the unique value of a bank charter and the trust it connotes. In fact, fintech companies today are exploring all of their options to become a bank. Recently two companies have signaled their interest in an industrial loan company charter. While we believe firmly that each new bank application must be evaluated on its own merits, the use of the ILC charter in novel ways raises questions about what banking rules apply to technology companies.

What is not clear is whether a technology company fits the intended purpose of an ILC charter and whether the controls designed to separate banking and commercial activities would be sufficient to maintain this separation at a technology company where data flows across these borders in a blink of an eye.

There are real public policy considerations that drove the establishment of a separation between banking and commercial activity. Any change in this policy deserves full public debate and a new precedent should not be set by a one-off charter application.

But let me be clear: ABA is a fierce proponent of charter choice. ILCs, savings banks, trust banks, mutually owned institutions and Subchapter S banks – these are all charter and ownership structures that provide different advantages for serving a customer base or community, and banks should have a choice in how best to structure themselves.

ABA is also pro-innovation. We do not wish to build a fence around the industry to keep disruptors out; that would be naïve, dangerous and a disservice to our customers. We know that financial innovation will occur with or without banks, and a fence would only serve to trap banks inside.

Rather, we seek partnership opportunities for our members and a policy environment that supports innovation while ensuring that consumers of financial products are equally protected.

CONCLUSION

The bank charter – whether a traditional commercial bank, mutual savings institution or industrial loan corporation – has endured over time because of both innovation and regulation.

These haven't always worked in tandem – sometimes the marketplace or state regulation outpaces federal regulation. And sometimes regulatory policy has inhibited innovation, which we believe has played a role in the dearth of de novo charters today.

But on balance, innovation and regulation have had the combined effect of ensuring a safe, sound, and resilient banking system responsive to the needs of America's households and businesses.

For this reason, we believe the best solution for customers is fintech delivered in partnership with regulated financial institutions.

Banks are trusted providers of financial services with an expertise in compliance. And as transformational as fintech has been to our industry, consumers still place a high value on traditional banking assets, like customer service and branches.

In fact, a recent survey conducted for ABA by Morning Consult found that consumers are overwhelming satisfied with their primary bank. What's more, when asked what features they value most value in their bank, the top three answers were its customer service, its location, including access to branches, and the security of customers' account and personal information.

Combine these advantages with the advancements financial technology offers – whether those be faster or more consistent credit decisions, expanded geographic reach, budgeting that allows consumers to analyze their spending trends or more precise fraud detection – and the fintech-bank partnership model is an unbeatable way to delivery both safety and convenience.