Keynote Remarks

By

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to

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and Alliance for Innovative Regulation's
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Good morning to everyone here in Washington, and to those in London, good afternoon. To all the hackers in the room and across the Atlantic: keep those "white hats" on!

Thank you to the Financial Conduct Authority and AIR – the Alliance for Innovative Regulation for bringing together this enormously talented group.

Earlier today, I had the honor of serving as a judge for the sprint team presentations. I was humbled by the teams' incredible work, and do not relish having to help select a single winner.

Opportunities like this are invaluable because they foster technological advances that transform the way banks operate and interact with their customers and regulators.

Big data, marketplace and digital lending, and machine learning and artificial intelligence are already changing retail financial markets. Technology is reshaping how customers want to bank and how banks can deliver innovative products and services. In wholesale financial markets, blockchain and distributed ledger technology impact not only the flow of value, but also how banks and markets operate.

And, as demonstrated today, technology is also helping the industry address a serious threat – money laundering.

It is essential that we utilize technology to not only help prevent illicit activity, but also to strengthen the collaboration among banks, regulators, law enforcement, and intelligence.

Laws and regulations that combat money laundering and terrorist financing, like the Bank Secrecy Act (BSA), do not just impose recordkeeping and reporting requirements on financial institutions, they also impose significant compliance costs on the entire system.

Filing suspicious activity reports can be burdensome, but the information gathered can help authorities detect and stop crime. Federal agencies should develop better ways to communicate the value of these reports to the bankers that incur the costly burden of the reporting. Approaching BSA/Anti-Money Laundering (AML) compliance as a partnership will promote healthier relationships with institutions and a better understanding of the real costs of money laundering.

New technology will also help banks reduce the cost of compliance and better manage their risks. The FDIC recently joined with other federal agencies to formally encourage depository institutions to consider, evaluate, and responsibly implement innovative approaches to help the financial system detect and prevent illicit financial activity and meet their BSA/AML compliance obligations.[1]

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[1] See FDIC, Board of Governors of the Federal Reserve System, Financial Crimes Enforcement Network, National Credit Union Administration, and Office of the Comptroller of the Currency. *Joint Statement on Risk-Focused Bank Secrecy Act/Anti-Money Laundering Supervision*, July 22, 2019. Available at: https://www.fdic.gov/news/news/press/2019/pr19065a.pdf.

Innovation at the FDIC

Government agencies are not often thought of as being at the forefront of technology for a simple reason – they are generally not. It is my goal that the FDIC lay the foundation for the next chapter of banking by encouraging innovation that meets consumer demand, promotes community banking, reduces compliance burdens, and modernizes our supervision.

Recently, I met with two dozen fintechs in Silicon Valley and San Francisco to learn how they team up with banks to offer innovative products and services to consumers. For the most part, the FDIC does not regulate these companies, but I was eager to get their feedback for a simple reason: if our regulatory framework is unable to evolve with technological advances, the United States may cease to be a place where ideas become concepts and those concepts become the products and services that improve people's lives.

Broad adoption of technology – both at the FDIC and within the banking system – was one of the driving factors behind our decision to establish a new office of innovation within the FDIC. The FDIC Tech Lab (FDiTech) will help encourage our community banks to utilize technology in their delivery channels and back office operations, and even more so in reassessing how they serve their customers. Many of the institutions we supervise are already innovating, but a broader adoption of new technologies across this sector will allow community banks to stay relevant in the increasingly competitive marketplace.

I have noted on many occasions how vital community banks are to their communities. They support the small businesses, farms, libraries, and other entrepreneurs that help small towns, rural communities, and underserved inner-city locations stay economically relevant and thrive. It is critical that the FDIC support technological change at the institutions that support these communities, and FDiTech will do just that.

First, we can reduce the cost to banks of developing and implementing new technology. It is our job as a regulatory agency to understand technology by engaging with innovators in banks and at fintechs and to provide sound guidance and technical assistance to banks that choose to deploy new technology. My goal is not to replace the judgement of banks, but to help reduce regulatory burdens that discourage innovation. Whether banks choose to develop technology on their own or partner with a fintech, the FDIC will work with them to identify and remove unnecessary regulatory impediments. Through engagement and technical assistance we can help eliminate the regulatory uncertainty that prevents some banks from adopting new technologies.

Second, through tech sprints and other innovative approaches, the FDIC can help encourage the market to develop technology that improves the operations of financial institutions and how the FDIC functions as a regulatory agency. For example, we are considering acquisition strategies for new "reg-tech" and "sup-tech" solutions that will encourage innovation and problem solving more quickly and at less cost than traditional government contracting. These approaches will incentivize the private sector to leverage its resources to produce market-driven solutions. These approaches will encourage non-traditional partners to engage in the development of cutting-edge technology, and will help avoid the limitations of monolithic, government-imposed technological mandates that are too expensive and out-of-date by the time they are developed.

Third, the FDIC can work with developers to pilot products and services for truly innovative technologies. Working with our partner regulators at the state and federal level and with the institutions themselves, our goal will be to collaborate on building compliance into the pilot, consider regulatory questions or impediments that may arise, and work to address them in a pilot. Once a pilot is completed, we will work with the institution and its partners to understand and publish the results: what worked, what did not work, and how to make any necessary adjustments to make the product or service better once it is scaled.

By promoting these developments and encouraging our FDIC-supervised institutions to voluntarily adopt a more advanced technological footing, we can help foster the transformation of the community banking sector. In turn, the institutions we supervise can reach greater efficiency with products and services that are more attractive to consumers. Ultimately, these advances will allow the FDIC to utilize a new regulatory approach to supervision, powered by the same technology that is revolutionizing the banks we supervise.

This task will not be easy, and people will be the key to its execution. We are currently searching for a Chief Innovation Officer (CINO) to lead our Tech Lab. The CINO will work across the FDIC and with our U.S. and international partners to create a regulatory environment that increases the velocity of transformation and removes unnecessary impediments to innovation. We are also looking for other staff with technical expertise to help us better understand technology already deployed at our banks, develop new supervisory tools to be more efficient and effective as a regulator, and secure our networks and ensure that our supervised institutions' networks are secure.

If you want to keep changing the world, send me your résumé. We are looking for disruptors and visionaries. We want people who wake up in the morning and ask "why not," have the foresight to dream big, and have the skills and determination to make those dreams a reality. We are looking for those who can help us reshape our regulatory and supervisory approach so we do not merely evolve with technology, but we nurture it instead. It will not be easy, but it will be rewarding.

The FDIC is hiring innovators, and I am impatient for transformation. If you are too, and you have what it takes, then come hustle with us.

Thank you again for everything you have done this week to make banks – and the world – safer.