Remarks by

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at the

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"If You Build It, They Will Come"

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Good morning. It is an honor to speak here today. I have spent a considerable amount of time in my first year as FDIC Chairman pondering how financial tools can bring more people into the banking fold. Thank you for the opportunity to share my thoughts on that topic today.

The mission of the FDIC – in particular, our goal to expand economic inclusion – is one that resonates with me on a deeply personal level. I spent my 18th birthday on a plane *en route* to the United States, with $500 in my pocket and the dream that I could make it.

I understand from personal experience how important the financial system is to people of all walks of life. What I have learned since – through my various personal and professional experiences – is that the banking system can help make the American dream a reality for millions of people.

Many things have changed in those 28 years since my maiden voyage to America. Within six months of my arrival, the airline that brought me to the U.S. (Pan Am) and my former homeland (Yugoslavia) both ceased to exist. The internet became widely available, and technology changed how we do just about everything, especially how consumers approach commerce and banking.

Technology is not simply transforming how consumers access financial services; it is transforming the business of banking both in the way consumers interact with their financial institutions and the way banks do business. While new technology can certainly introduce risk, it can also help regulators and institutions identify and mitigate risk sooner. It will undoubtedly present opportunities to ease the burden of regulatory compliance, while helping institutions reach more consumers.

Technology allows financial institutions to meet consumers where they are, and it offers a tremendous opportunity to expand access to the banking system. From ATMs to credit cards to digital banking channels, innovation has made financial products and services more available, affordable, and convenient.

A key question for the regulators is – are we going to help build this brave new world, or stand in its way?

Regulatory Framework and Innovation

Innovation in financial services is not new. Banking has been the product of continuous innovation, going back to when the Medici Bank and its contemporaries improved the general ledger system through the development of the double entry system of tracking debits and credits, what we today refer to as deposits and withdrawals. It is fair to say that innovation in banking has been around since at least the 15th century.

What is different today is the speed and tremendous impact of technological innovation in and on banking, and the potential for technology to disrupt not just an institution or two, but banking as we know it. For the most part, regulators are trying to fit those new developments into last century's regulatory regime. In other words, regulators have tinkered around the edges of innovation without fundamentally changing the way we look at our regulatory framework and innovation.

Does it matter if the regulatory framework supports innovation? After all, the job of a regulatory agency is to regulate, plain and simple.

As I consider our regulatory framework and innovation, I see three broad categories: a regulatory framework that hinders innovation, one that is neutral to innovation, and a framework that encourages innovation. At best, our current financial regulatory framework falls into that middle category of neutrality. In many cases, it hinders innovation by making banks reluctant to innovate and develop products.

This should come as no surprise: by their very nature, regulatory agencies are risk averse, and more skeptical than accepting of change. Also by their very nature, banks are reluctant to go out on a limb and innovate unless they know with certainty that their regulator will look favorably upon innovation.

Benefits of Innovation

While no regulatory framework is capable of foreseeing all possible future circumstances it may want to address, it is paramount that regulations do not hinder innovation for two crucial reasons.

One, technology is a great equalizer. The banking industry has a history of innovating to meet consumers' needs. Technological innovation gives banks an opportunity to reach broad audiences swiftly, offer new products and services efficiently, and it promotes competition. Banks that do not benefit from economies of scale can utilize technology to more effectively compete with both their larger counterparts and competitors located in different geographies. In a free-market economy, competition is a good thing and consumers benefit from it.

Two, new technology has proven able to improve the customer experience, lower transaction costs, and increase credit availability. It also offers a tremendous opportunity to expand access to the banking system. Technological innovations can make banking services accessible to people who either are not part of the banking system or are disenfranchised – they might have had a banking relationship that did not work out for them, and now have one or no banking relationships.

According to the *2017 FDIC National Survey of Unbanked and Underbanked Households*, more than eight in 10 underbanked households – and nearly half of unbanked households – had access to a smartphone in 2017. In addition, nearly one-third of unbanked households – and 76 percent of underbanked households – report having internet access at home. The proportion of banked households that use mobile banking to access their accounts increased from 23.2 percent in 2013 to 40.4 percent in 2017. The share of banked households using online methods increased to 63 percent over the same time period. Those numbers show that *if you build it, they will come.*

As a matter of public policy, we should encourage banks to leverage technology to reach consumers, improve the customer experience, lower transaction costs, and increase credit availability. There is certainly an opportunity to utilize technology and innovation to both expand the availability of banking services to those who are already banked and to reach consumers who are not. Bringing consumers – particularly those who are disenfranchised – into the banking fold gives those consumers an opportunity to become a part of the system and to benefit from its offerings.

Benefits of Banking

Why should we want consumers to be banked? After all, many of those who no longer have a banking relationship got "burned" by overdraft fees on a checking account or late fees on a credit card.

Those skeptical of the benefits banks provide should ponder a different question: what is the alternative?

I cannot help but highlight a personal story to juxtapose my experience in the land I chose to call home – the United States of America – to that of the land where I was born. As I was growing up in the Socialist Republic of Yugoslavia, it did not take me long to recognize democracy was limited, policy was made behind closed doors, and large corporations were owned by the state.

When the former Yugoslavia and its financial system collapsed in the early 1990s, my then 68-year-old father went to work as a day laborer for $5 a day. My mother was a seamstress and a cafeteria server in a government-owned construction company.

To say that we lived humbly would be an understatement. And yet, my father did not believe in having debt so all of our purchases were made in cash: we would only buy a new piece of furniture or a new TV if we had saved enough cash.

On those rare occasions when my parents needed to borrow money, they did not go to a bank – not because they could not find one or because they mistrusted banks. On the contrary, banks were aplenty, all state-owned, and my parents did not mistrust banks. However, bank credit was either hard to get or prohibitively expensive, so my parents would borrow money from a friend or a family member, as they did to send me to America. People who had money to lend lived in constant fear of break-ins and home invasions. I recall walking into a friend's apartment that did not have two but four deadbolt locks and thinking *they must be rich*.

In the United States, banks ameliorate the need for people to hide their money in a mattress, and the FDIC guarantees deposits up to $250,000 per insured depositor. If consumers know how to manage credit responsibly, they can utilize credit to build household wealth over time and improve their living standards.

Banks afford consumers many important benefits that go beyond individual customers. They contribute to the system by helping fund a town's grocery stores, barber shops, restaurants, and other small businesses. In rural communities and urban neighborhoods, banks provide a critical lifeline for low- and moderate-income customers. Banks and the communities they serve are intrinsically

intertwined in a symbiotic relationship: the better those communities do, the better banks fare.

Still, millions of U.S. households do not experience these benefits because they are unbanked or underbanked. This number is trending down, but the FDIC's 2017 survey shows that more than 8 million households do not have any relationship with the banking system. Another 24.2 million households are underbanked, meaning they have a bank account but also meet some of their financial services needs outside of the banking system. Unbanked and underbanked rates are higher among lower-income households that are less-educated, younger, black and Hispanic, working-age disabled, and those with volatile income.

The FDIC and Innovation

With the potential for so much change, the FDIC is obligated to fully understand emerging technology and its implications. We owe that duty to our regulated entities and their customers. We have already begun partnering with banks to understand how they are innovating. We are working to identify and hire subject matter experts to deepen our understanding of technological advancements.

Adapting to advancements in banking technology is not new for the FDIC. The speed at which we have to do so is. Too often regulatory agencies play "catch up" with technological advances and their impact on regulated entities and consumers. The goal of our work at the FDIC is to reverse that trend through increased collaboration and partnership with the industry. We will move forward together and help increase the velocity of transformation, while ensuring that banks are safe and sound and consumers sufficiently protected.

As we ramp up to meet these new challenges, we have to keep in sight the potential benefits. Chief among them is that innovation can introduce reliable products and services that will bring more Americans into the banking system. It is my goal that the FDIC lay the foundation for this next chapter of banking, encourage innovation that meets consumer demand, promote community banking, and reduce compliance burdens.

The role of a regulatory agency is not to stand in the way of relationships between banks and customers, but to encourage them. To this end, the FDIC is undertaking a number of initiatives to engage with bankers, consumers, and communities; to revisit our regulations to find ways to streamline and simplify compliance requirements; and to encourage efforts by banks to meet consumers' needs. I will briefly touch upon a few of those initiatives.

Small-Dollar Lending

Recent studies by the Federal Reserve show that nearly four in 10 households cannot cover a $400 emergency expense with cash. As someone who once lived paycheck to paycheck, I am acutely aware that sometimes consumers need immediate access to cash to cover unexpected costs.

Generally, consumers benefit when they can walk into a bank to obtain this type of credit, especially banks that have longstanding relationships with local customers and communities. But banks at times have chosen not to offer such products due to the regulatory environment in which they operate. As a result, many families rely on non-bank providers to cover these emergency expenses, or their needs go unmet. If banks do not offer small-dollar products, consumers who need small-dollar loans do not even have an opportunity to become banked and start building their credit histories.

The FDIC is looking for ways to encourage banks to meet those needs in a manner that makes sense for both the bank and the consumer. In November, we issued a Request for Information on small-dollar credit products. We asked questions on a range of topics, including seeking insights on what legal and regulatory impediments exist that prevent or disincentivize banks from offering small-dollar credit products.

We gathered a lot of valuable information through this process, and we are using this feedback to formulate a revised policy framework to encourage banks to offer small-dollar loan products to customers in need.

The bottom line is that we are not going to encourage unbanked and underbanked consumers to become a part of the banking system if we are unwilling to consider what products may appeal to them, and then create a regulatory environment that allows banks to offer those products. Banks, on the other hand, are not going to offer products if they are unable to make money while being exposed to regulatory, legal, and reputational liability. To bridge that divide, regulators have to think outside the box to allow banks to innovate without fear of uncertainty and regulatory whims.

Reducing Regulatory Burden

Our regulatory system has become far too complicated, especially for the nation’s community banks which are not all that complicated. If we want banks to focus on innovation and reaching more consumers, we have to relieve some of the

unnecessary regulatory burden on those institutions so they can get back to the business of banking.

As banks develop strategies to bring more consumers into the banking system, non-banks are introducing innovative new products and services to meet consumer demands. Marketplace lending and crowdfunding platforms offer credit and funding without banks' involvement. Peer-to-peer payment technology allows customers to transfer funds easily via the internet or a phone.

Banks have to compete not only with other banks, but also with technology companies that are able to reach consumers and offer financial products with more agility and less burdensome regulation.

To ensure that we are prepared to address the changing landscape in financial services, the FDIC has dedicated significant resources to identify and understand emerging technology. We are examining trends in retail financial markets, including marketplace and digital lending, machine learning and artificial intelligence, and big data. We are also considering developments in the wholesale financial markets, as well as blockchain and distributed ledger technology.

And we are looking at the regulatory burden imposed on banks and asking how much of it is necessary. The FDIC has taken a number of actions over the past year to ensure that we are appropriately addressing risks to the banking system without imposing unnecessary regulatory burdens. For example:

- We are working to substantially simplify the capital requirements for small banks by giving qualifying community banks the option to calculate a simple leverage ratio, rather than multiple risk-based capital and leverage ratios imposed by the Basel framework.

- We are also working to tailor the risk-based capital rules for banks that do not qualify for the community bank leverage ratio, recognizing that the risk-based regime should be simpler.

- We have issued proposals to tailor capital, liquidity, and resolution planning requirements for regional banks, so that the requirements better align with the size and risk profile of each institution, without undermining safety and soundness or our resolution capabilities.

- We expect to finalize a rulemaking to exempt community banks from the Volcker Rule this month. At the same time, we have been hard at work

simplifying and rationalizing the Volcker Rule more broadly. We hope to be able to finalize changes to the rule's proprietary trading restrictions sometime this summer.

Another priority of mine is to ensure that the supervisory guidance we provide is as clear and concise as possible. Last year, the FDIC rescinded nearly 60 percent of our supervisory Financial Institution Letters after determining they were outdated or redundant.

The purpose of all of these steps is to provide consistency, clarity, and common sense regulation and supervision that will enable financial institutions to serve their customers, while ensuring that the financial system remains strong and resilient.

De Novo Banks

Encouraging the formation of new banks is another top FDIC priority. A key feature of any competitive industry is the ability for new startups to enter the market. In the banking industry, *de novo* banks are a key source of capital, talent, ideas, and ways to serve customers. They bring innovation and new energy to the industry.

Since the financial crisis, *de novo* activity has screeched to a halt. Only two new startup banks opened between the end of 2010 and the end of 2016. More recently, we have seen signs of increased interest in new bank formation, and the FDIC is taking a number of steps to encourage this interest.

In December, we rolled out an improved application process to offer prospective organizers the opportunity to submit draft insurance proposals and receive feedback from the FDIC in advance of a formal filing. We published a handbook for *de novo* organizers that walks them through each stage of the application process. And we published – for the first time publicly – our own internal processes for reviewing deposit insurance applications.

Finally, we launched a nationwide outreach initiative focusing on *de novo* bank formation, beginning with a roundtable discussion in DC in December. We have since hosted similar discussions in each of our six regional offices, which have been constructive and thoughtful, and we are reviewing the feedback.

Ultimately, our regulatory regime should encourage startups and innovation. Our ultimate goal is to develop a pipeline of new banks that can offer new business models, banking services, and products, as well as fill gaps in overlooked markets.

Conclusion

Economic inclusion is not an amorphous concept: people who have banking products are able to build good credit histories. People who build good credit histories are more likely to qualify to buy a house. With homeownership comes a sense of attachment – literally and figuratively – to the street, neighborhood, broader community, public school systems, local parks and libraries, and municipal infrastructure. People who belong are by very definition not disenfranchised. And people who are not disenfranchised are invested in their communities – they want their communities to succeed.

Put simply, economic inclusion leads to economic prosperity. I know because I have been on both sides of that proverbial fence. And let me tell you: the grass is, in fact, a whole lot greener on this side.

The day after I arrived in the U.S., I opened a checking account at a bank, and deposited all of my money – five crisp $100 bills – in that account. I would like to say that the 18-year-old me possessed the wisdom to know that the simple act of opening a checking account would have a significant impact on my life. I did not. What I did know was that opening that checking account was *necessary* for me to function in my new homeland.

It did not take long for me to realize that, in addition to a checking account, I should have a credit card. I applied for a credit card, but with no credit history and no assets other than that meager $500, I was denied. I felt destitute and only years later came to realize that people like me have a cool acronym: NINJA – no income, no job or assets. There is nothing cool about being *that* type of NINJA, I can assure you.

Nonetheless, I was offered the option to open a secured credit card and I jumped on it. If you really think about it, the entire concept did not make sense: I was essentially borrowing from myself while the bank held my money as collateral and collected the interest. I could not even explain the concept to my father back in Yugoslavia. But with each swipe of that credit card I felt more integrated into the very fiber of American society. I no longer had to count cash in my hand and add the price of food items in my head before I would reach the cashier. I no longer had to tell the gas station attendant to only pump $5 or $10 worth of gas.

After 12 on-time monthly payments, the bank released my security deposit. With my newly established credit history, I was able to obtain an unsecured credit card, and a world of opportunities opened up. From there, I built my credit history and qualified for an auto loan, student loans, and, eventually, a mortgage for my first home. (In fact, two mortgages, because the home was in California.)

With that credit history, I became a part of the U.S. financial system. That very system enabled me to get a college degree and a law degree from a public university, to become a homeowner, to provide food and shelter for my elderly parents and a young daughter as a single mom, and eventually to stand before you today as the 21st Chairman of the FDIC.

That secured credit card in 1991, on terms that I would probably find egregious now, was my ticket into the system that has subsequently allowed me to thrive. And, as I thrived within the system, I learned to respect it and contribute to it. As I became a taxpayer, a homeowner, a mother of a child in public schools, and a public servant in various roles at the Federal Reserve, the United States Senate, and now the FDIC, I became a shareholder in the United States of America with a vested interest in its success.

I do not mean to downplay my role in getting where I am today: trust me when I tell you that it took an extraordinary amount of grit, sacrifice, and perseverance to go from $500 to the FDIC Chairmanship. But I firmly believe that I could not have done it anywhere else in the world, and I certainly could not have done it had I not become a part of the system here. As the old adage goes, *only in America*.

Because of my respect for and gratitude to America, I take my jobs seriously. My job as a regulator is to ensure that our regulatory system encourages innovation so that our financial markets are resilient and our consumers are adequately protected. My job as a taxpayer is to be a responsible citizen. My job as an American is to ensure that the system built on free enterprise, market economy, and entrepreneurship continues to thrive into the 21st century.

I assure you the FDIC will keep an open mind to the potential challenges and opportunities presented by innovation. Our regulatory framework should work for both a millennial who has never stepped foot inside a bank branch and the young immigrant who cannot afford a smartphone. Both that millennial and the young immigrant will benefit in the long run from being a part of our banking system and the FDIC stands ready to make that happen.

Thank you.