Fintech: A Bridge to Economic Inclusion

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Thank you, Leonard, and thank you to everyone who has contributed to organizing this event.

This conference explores how we can harness the power of technology to create an inclusive financial system. I would like to challenge us to think about this issue at a deeper level. When we talk about financial inclusion, the question before us is not merely whether a person has a checking account or a credit card but, more fundamentally, whether they are a part of the financial fabric of the United States.

The FDIC has seen meaningful improvements in recent years in reaching the "last mile" of unbanked households in this country. Based on the results of our biennial survey of households, the proportion of U.S. households that were banked in 2019 – 94.6 percent – was the highest since the survey began in 2009.[1]

Notwithstanding these improvements, we know that much remains to be done. Our survey also showed that 7 million *households* do not have a banking relationship with which to deposit their checks or to save for unexpected expenses.[2] That number reflects households, meaning the number of individual unbanked Americans is many times higher. Also concerning is that the rates for Black and Hispanic households who do not have a checking or savings account at a bank remain substantially higher than the overall "unbanked" rate.[3]

I know firsthand how a simple checking account can lay the foundation to building financial stability. I immigrated to this country 30 years ago – I am exactly a month away from my 30th anniversary in the United States – with no assets other than $500 dollars tucked into the pocket of my jeans. I immediately opened up a checking account in the United States and deposited that small amount. With no credit history, job, or assets, I did not qualify for an unsecured credit card. Instead I obtained a secured credit card, essentially borrowing from my own funds to make payments. I quickly learned that it is expensive to be poor in America. Basic financial services can be costly, from accessing your own cash to borrowing someone else's cash. When you shuffle $20 here and $10 there, it is impossible to feel that the system is working for you.

And yet, slowly, I built up enough of a credit history to qualify for an unsecured credit card, an auto loan, student loans, and eventually a mortgage. Because I had no other access to capital, access to credit was everything: it enabled me to pay for my education, finance a vehicle that took me to school and work, led to financial stability through home ownership, and ultimately brought me before you today as Chairman of the FDIC.

It should be no surprise, therefore, that creating an inclusive financial system and one that works for all Americans has been a top priority of mine since I became Chairman in 2018. That is why I have tasked the FDIC to think of financial inclusion not solely through the lens of whether a person has a checking or credit account but whether the financial system is working for them.

Over the years, the FDIC has offered financial education tools and encouraged banks to offer low-cost and no-fee accounts to low- and moderate-income consumers. Those efforts have limits, however: millions of American households remain unbanked and millions of Americans do not have a credit score. The persistent gap in access to the banking system has shown that we must think outside the box to create a regulatory system that will help close this gap.

This is where innovation comes in. As I have said before, innovation is no longer a question of "shall we; shall we not" but "how can we do it because we must." Though no one could have foreseen that a devastating pandemic would upend our lives during this past year, the momentous shift that many societies around the world have experienced as a result of the pandemic has only underscored how critical innovation is for banks and consumers alike.

The FDIC is taking a multi-pronged, novel approach to tackle the issue of financial inclusion.

- We are looking at financial innovations occurring in the private sector;
- we are taking steps, including hosting tech sprints, to identify additional solutions;
- we are collaborating with Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) to better allow them to compete in the modern era; and
- we are conducting targeted public awareness campaigns regarding the importance of a banking relationship.

As you will hear throughout this conference, we are pursuing many of these efforts through our new Office of Innovation – FDiTech – which we established early on in my tenure at the FDIC to promote innovation at the agency and across the banking sector.[4] Our first Chief Innovation Officer, Sultan Meghji, began work earlier this year and you will hear from him shortly.[5]

Financial Innovations in the Private Sector

Our first and broadest endeavor involves an effort to better understand technological advancements occurring in the market place, many of which have the potential to expand access to financial services while ensuring compliance with applicable consumer protection and privacy laws.

Alternative data

Throughout my tenure, we have encouraged the use of alternative data by financial institutions. Alternative data is information not typically found in a consumer's credit files at the nationwide consumer reporting agencies or customarily provided as part of applications for credit. Using alternative data can improve the speed and accuracy of credit decisions and help firms evaluate the creditworthiness of consumers who might not otherwise have access to credit in the mainstream credit system. The FDIC and our fellow regulators issued guidance in 2019 to encourage the responsible use of alternative data, and this is an area we continue to explore.[6]

We have already seen examples of startups creating underwriting technology that can look beyond traditional criteria, for example by using bank deposit account cash-flow data to offer credit to people who otherwise would not qualify for it. Harnessing the use of technology to improve credit assessments can broaden access to credit and improve the predictive capacity of such assessments for lenders.

Artificial intelligence

In March, alongside our fellow regulators, we issued an interagency request for information on financial institutions' use of artificial intelligence, asking whether additional regulatory clarity would be helpful.[7] Alternative data and artificial intelligence can be especially important for small businesses, such as sole proprietorships and smaller companies owned by women and minorities, which often do not have a long credit history. These novel measures of creditworthiness, like income streams, can provide critical access to capital, particularly in difficult times.

Brokered deposits rulemaking

At the end of 2020, we updated our brokered deposits regulations, removing some regulatory hurdles to certain types of innovative partnerships between banks and fintechs.[8] More than half of unbanked individuals have access to a smartphone,[9] but do not have a checking or savings account, while many banks located in low-income areas depend on deposits sourced from outside their local area for funding. The updates to the brokered deposits rule were crafted to help both the former and the latter.

Public/private standard-setting organization

In addition to our brokered deposits rule, last year we asked stakeholders to comment on a groundbreaking approach to facilitate technology partnerships. Our request for information proposed a public/private standard-setting organization to establish standards for due diligence of vendors and for the technologies they develop.[10] This voluntary certification program would help reduce the cost and uncertainty associated with the introduction of new technology at financial institutions. We received many supportive comments in response to the request for information and continue to pursue the concept.[11]

Tech Sprints

FDiTech is also leading tech sprints to identify data, tools, and technology to help community banks meet the needs of the unbanked, including how to measure impact.

Rapid prototyping tech sprint

For example, last year, we launched a rapid prototyping competition, a type of tech sprint challenging competitors to promote more regular reporting from community banks, where technology levels vary greatly, without increasing reporting burdens or costs. More than 30 technology firms were invited to participate in this competition[12] and 11 vendors made it to phase three of the competition.[13] We expect this tech sprint, and others that follow, to help pave the way for more seamless and timely reporting of more granular data for banks that voluntarily choose to participate.

Inclusion tech sprint

Our latest tech sprint, announced by FDiTech just this month, explores new technologies and techniques that would help expand the capabilities of community banks to meet the needs of unbanked households. Although we recognize there is no single solution to addressing disparities in our financial system, we can do more to help community banks. Adopting new technologies can be difficult for community banks in particular because they lack the economies of scale of larger institutions. Community banks, including MDIs and CDFIs, are often the financial lifeblood of the communities they serve, providing individuals and minority-owned small businesses a secure way to build savings and to obtain credit.

This tech sprint is a public challenge to banks, non-profits, private companies, and others to help us reach that "last mile" of unbanked Americans. We hope to begin accepting registrations this coming month.

Collaboration with Mission-Driven Banks

Yet another set of novel initiatives the FDIC is pursuing is creative collaboration with MDIs and CDFIs, including: the creation of a Mission-Driven Bank Fund to provide capital investment and technological tools; enhanced technical assistance to MDIs by the FDIC; FDIC-organized partnerships between MDIs and non-MDIs; and marketing campaigns to highlight MDIs' significance for their communities.

The Mission-Driven Bank Fund is an example of how the FDIC is thinking outside the box when it comes to facilitating capital investments in mission-driven banks. We are facilitating the stand-up of the Mission-Driven Bank Fund[14] that will channel investors' funds to make investments in MDIs and CDFIs, through a variety of asset classes. We have engaged a financial advisor and two law firms to develop the framework, structure, and concept of operations for this fund.

The FDIC benefited from having approximately 70 MDI and CDFI bank executives provide input during the fund development phase, and we also have worked to obtain feedback from anchor investors and prospective corporate and philanthropic investors. While the FDIC is helping to build the framework for the fund, it will not manage the fund, contribute capital to the fund, or be involved in the fund's investment decisions. Our goal is for the anchor investors to hire a fund manager, conduct a fundraising round, and be prepared for the fund to accept pitches from MDIs and CDFIs in the fourth quarter.

The idea of this fund came to me on a flight somewhere over the United States as I was flipping through TV channels on the small monitor mounted on the back of the seat in front of me. I came across a successful television show—whose name, our lawyers tell me, I am not supposed to mention – in which entrepreneurs present their business ideas to a group of potential investors. And I thought to myself: "Why can't we do something similar for our

MDIs?" Initially, this idea was met with raised eyebrows at the FDIC – not because we did not want to do this, but because we have never done it! In fact, no regulatory agency has done something even remotely similar. After many hours of deliberation that included a thorough review of the FDIC's statutory authorities, here we are . . . just about to unveil the Mission-Driven Bank Fund.

The reason I bring up this story is to illustrate a point that is not always apparent: to change the status quo and address the gap in financial belonging, we – public and private sector entities alike – will have to think outside the box. The FDIC has done just that . . . in more ways than one.

Targeted Public Awareness Campaigns

Finally, I will touch upon our recently launched, targeted public awareness campaign, #GetBanked. This campaign aims to inform consumers about the benefits of developing a relationship with a bank. Having a basic checking account can be an important first step to becoming part of the financial fabric of this country and we are pleased that an increasing number of banks are offering low-cost and no-fee accounts that work for people with limited means.

Conclusion

Although the FDIC has limited ability to address directly the issue of unbanked Americans, there are things that we can do – and which we are doing – to foster innovation across all banks and to reduce the regulatory cost of and barriers to innovation. At the same time, I encourage all of the participants today to engage with us and share your ideas and expertise on how we can support innovation as a bridge to financial inclusion. As I hope will be made plenty clear during today's events, we at the FDIC are on the ground, we have rolled up our sleeves, and we welcome everyone to join us in getting to work to advance financial inclusion.

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[1]*See* How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey, available at https://www.fdic.gov/analysis/household-survey/2019report.pdf (PDF).

[2]*See id*. at 1.

[3]*See id*. at 2.

[4]*See* Remarks by Jelena McWilliams, FDIC Chairman, "The Future of Banking," The Federal Reserve Bank of St. Louis (Oct. 1, 2019), available at https://www.fdic.gov/news/speeches/2019/spoct0119.html.

[5]*See* "FDIC Appoints First Chief Innovation Officer" (Feb. 16, 2021), available at https://www.fdic.gov/news/press-releases/2021/pr21009.html.

[6] *See* FDIC, FIL-82-2019, Interagency Statement on the Use of Alternative Data in Credit Underwriting (Dec. 13, 2019), available at https://www.fdic.gov/news/financial-institution-letters/2019/fil19082.html.

[7] *See* Request for Information and Comment on Financial Institutions' Use of Artificial Intelligence, Including Machine Learning, 86 Fed. Reg. 16837 (Mar. 31, 2021), available at https://www.govinfo.gov/content/pkg/FR-2021-03-31/pdf/2021-06607.pdf (PDF)

[8] *See* Unsafe and Unsound Banking Practices: Brokered Deposits and Interest Rate Restrictions, 86 Fed. Reg. 6742, (Jan. 22, 2021), available at https://www.fdic.gov/news/board/2020/2020-12-15-notice-dis-a-fr.pdf (PDF); Remarks by Jelena McWilliams, FDIC Chairman, "Brokered Deposits in the Fintech Age," Brookings Institution (Dec. 11, 2019), available at https://www.fdic.gov/news/speeches/2019/spdec1119.pdf (PDF).

[9] *See* FDIC, How America Banks, supra note 1, at 26.

[10] *See* FDIC, FDIC Seeks Input on Voluntary Certification Program to Promote New Technologies (July 20, 2020), available at https://www.fdic.gov/news/press-releases/2020/pr20083.html.

[11] Comments received in response to the request for information are available at https://www.fdic.gov/regulations/laws/federal/2020/2020-request-for-info-standard-setting-3064-za18.html.

[12] *See* FDIC, FDIC Launches Competition to Modernize Bank Financial Reporting (June 30, 2020), available at https://www.fdic.gov/news/press-releases/2020/pr20079.html.

[13] *See* FDIC, FDIC Selects 11 Companies to Compete in Final Phase of Tech Sprint (Jan. 11, 2021), available at https://www.fdic.gov/news/press-releases/2021/pr21004.html.

[14] *See* FDIC, Investing in Banks That Support Communities in Need, available at https://www.fdic.gov/regulations/resources/minority/mission-driven/infographic.pdf (PDF); *see also* FDIC, Minority Depository Institutions Program, Investing in the Future of Mission-Driven Banks, available at https://www.fdic.gov/regulations/resources/minority/mission-driven/index.html.