

**Remarks by
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Introduction

I am very pleased to join you today. I would like to thank President Patrick Harker for hosting this important event on the role of fintechs.

Every time people mention the word “fintech,” there is an aura of science fiction to it. And yet, technology in financial services is nothing new. ATMs and mobile banking are just a few examples of the innovative services that have transformed banking in modern times. They are ubiquitous now, but they were once revolutionary.

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 or 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. This is why it is crucial that policymakers and regulators understand the impact, scope, and consequences that are innate to what we have come to refer to as “fintechs.”

Role of Innovation in Expanding Bank Access

First, I will touch upon the role of innovation in expanding bank access because one of the primary benefactors of innovation are customers. Mobile and online banking, in particular, offer a level of control, access, and convenience that consumers have embraced.

If you think back a decade or two ago, very few among us could have imagined applying and being approved for a mortgage while relaxing at home in our pajamas. You would have to dress up (and dress well to impress the banker), and then show up at the bank with reams of paper to prove your creditworthiness. Not anymore. In fact, had my mortgage bankers seen what I looked like last time I applied for a loan, I am afraid I might have been denied.

Consumers have embraced these technological advances. Households are using mobile and online technology to open accounts, check account balances, transfer money between accounts, send money to others, and pay bills. And that is only the start. These transactions can be initiated from nearly any location and at any time. And to think that a few decades ago, travelers' checks were all the rage...

A recent FDIC survey shows that 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.

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.

Banks afford consumers many important benefits. These include consumer protections and wealth-building opportunities, and – *near and dear to my heart* – the protection provided by deposit insurance.

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 latest 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, less-educated households, younger households, black and Hispanic households, working-age disabled households, and households with volatile income.

Using Technology to Meet Consumers' Needs

Overcoming challenges to economic inclusion is vital to the FDIC's mission to maintain public confidence in the financial system. Innovation plays a role here – not just in *how* products and services are delivered to consumers, but also in the *development* of products and services that meet their needs – particularly those of unbanked and underbanked households.

The FDIC's recent survey looked at mobile and smartphone access among these households. Results suggest that mobile and internet banking offer important inroads into the banking system.

More than eight-in-ten 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.

These channels enable unbanked and underbanked households to access banking services. It will be up to institutions to leverage technology and develop products to reach these consumers.

Understanding the Impact of New Technology

As banks develop strategies to bring more consumers into the banking system, innovations by non-banks are also introducing new products and services to meet consumer demands.

Marketplace lending and crowdfunding offer credit and funding without a bank's involvement. Digital-only banks partner with institutions to offer retail services, such as deposit accounts, credit cards, and financial advice, predominately through smartphone apps. Peer-to-peer payment technology allows customers to transfer funds easily via the internet or using a phone. "Robo-advisors" use algorithms to provide investment advice.

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.

Beyond the Digital Storefront

Technology is not simply transforming how consumers access financial services, it will also transform the business of banking – both in the way consumers interact with their financial institutions and the way banks do business.

- Data analytics will improve lending and help banks develop new approaches to assess credit risk.
- Technology will transform how banks identify customers and how they distinguish routine transactions from suspicious activity.
- Artificial intelligence and machine learning will provide better opportunities to manage risk – helping banks understand how their business plan can change to promote growth, while matching their appetite for risk.

Advancements in technology and data analytics will also change the way the FDIC and other regulators approach oversight, particularly in the areas of BSA/AML compliance and protecting consumers' personal information.

While new technology can certainly introduce risk, it can also help regulators and institutions identify and

mitigate risk sooner. And it will undoubtedly present opportunities to ease the burden of regulatory compliance.

I assure you the FDIC will keep an open mind to the potential challenges and opportunities going forward.

Understanding the Impact

With the potential for so much change, the FDIC is obligated to fully understand emerging technology and its implications. 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.

A few weeks ago, I was asked at an event in New York City what I planned to do about fintech. I said that we planned to open up an Office of Innovation at the FDIC. By the time my plane landed in D.C., there were already a handful of articles about the FDIC *rolling out* its Office of Innovation, to the bemusement of my staffers. So to the reporters in the room: I am taking a late train back to D.C. in case you are writing an article about the FDIC's Office of Innovation.

All joking aside, it is fair to ask what the FDIC's Office of Innovation will do once it is up and running. I have tasked my team with four fundamental questions as we set out on this journey:

1. How can the FDIC provide a safe regulatory environment to promote the technological innovation that is already occurring?
2. How can the FDIC promote technological development at our community banks with limited research and development funding to support independent efforts?
3. What changes in policy – particularly in the areas of identity management, data quality and integrity, and data usage or analysis – must occur to support innovation while promoting safe and secure financial services and institutions?
4. How can the FDIC transform – in terms of our technology, examination processes, and culture – to enhance the stability of the financial system, protect consumers, and reduce the compliance burden on our regulated institutions?

We will not answer these questions overnight – and certainly not before my train arrives in D.C. tonight.

Conclusion

Adapting to advancements in banking technology is nothing new for the FDIC. 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 safe and 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, encouraging innovation that meets consumer demand, promotes healthy and successful banks, and reduces compliance burdens.

To all you innovators out there, get to work!

Thank you.