



Bank Strategy Briefing

Ideas and analysis for community bank executives

Are you innovative?

Much has been made recently about innovation in the banking industry. You can hardly pick up an *American Banker* or other trade publication without seeing some mention of FinTech or other such initiative. The Office of the Comptroller of the Currency (OCC) has even dipped its toes in the water by: (i) issuing a white paper titled “Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective” in March 2016, (ii) establishing an Office of Innovation in Oct. 2016, and (iii) announcing its intent to make special purpose national bank charters available to financial technology companies in Dec. 2016. It is unclear just how serious the OCC is about granting FinTech charters at this point, but nevertheless, banks would be well-advised to consider their role in this marketplace now, before they find themselves behind the proverbial eight ball.



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What exactly is meant by “responsible innovation”? According to the OCC white paper, it involves “the use of new or improved financial products, services and processes to meet the evolving needs of consumers, businesses, and communities in a manner that is consistent with sound risk management and is aligned with the bank’s overall business strategy.” The OCC has recognized that millennials make up approximately 80 million people, most of whom are tech-savvy and demand innovation from their financial service providers. To the extent that banks are not willing to fill this need, non-bank technology firms are more than happy to step up to the plate.

It is true that, historically, banks have not exactly been on the forefront of technological change. In large part this hesitancy has been driven by constraints on capital and other regulatory safety and soundness pressures. It is encouraging to see the OCC recognizing the importance to the industry of embracing these changes and helping to craft a framework for banks and other financial service providers to enter the fray responsibly. To this end, the OCC enumerated eight guiding principles for its approach to responsible innovation, which include creating a regulatory environment that fosters innovation and encourages banks of all sizes to include innovation in their strategic plans, while not losing sight of the need to maintain effective risk management processes.

To date, the intersection between traditional banking and FinTech has occurred most prevalently in the marketplace lending arena; however, every day new opportunities arise in such areas as electronic payments, online mortgage application and origination technology, as well as others. Partnering with FinTech does not necessarily have to involve large investments in start-up enterprises. FinTech products and services are frequently delivered to partners such as banks through application program interfaces (APIs), which can be added to a bank’s website relatively painlessly and economically. Banks just need to have the foresight and creativity to seek out and

embrace these partnerships. Banks of all sizes would be wise to consider adding technology expertise to their officer corps, as well as in to their boardrooms to help them gain a better understanding of this burgeoning area. In addition, technological innovation should be a part of every bank's strategic plan. Of course, working with your regulators before embarking on any new strategic partnerships is always advisable, but to the extent that you can demonstrate that you have considered all of the material risks, done your due diligence and have appropriate agreements in place, this should not present an insurmountable roadblock.

In future editions of the Bank Strategy Briefing, we will be exploring other ways that community banks have been embracing innovation to enhance their bottom line.



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