Dear Comptroller Curry,

On behalf of our members Innovate Finance welcomes the OCC’s initiative to develop a comprehensive framework to identify and understand trends and innovations in the financial services industry, as well as the evolving needs of consumers of financial services.

Innovate Finance is an independent membership association, based in the UK which represents the global FinTech community, many of which operate in the United States.

Innovate Finance is a not-for-profit that aims to accelerate our members leading position in the global financial services sector by directly supporting the next era of technology-led financial services innovators, whether they be a young start up or an established industry player.

With over 250 members from across the FinTech ecosystem including global banks, Innovate Finance seeks to address some of the key issues affecting the growth of the sector many of which are identified in the OCC paper.

To support our members we have recently set up the Transatlantic Policy Working Group (TPWG) to share best practice in regulatory innovation from both the UK and U.S. The following response is based on working sessions from this group held in Washington and New York¹.

Intro

The United States FinTech industry has boomed in recent years in terms of innovation and investment, but regulators have only very recently embarked on efforts to learn more about the space and consider how the existing policy framework supports further responsible innovation.

This paper has a particular focus on the UK approach to financial regulation and any lessons this may provide for the OCC moving forward.

¹ The TPWG roundtable sessions involved: banks, non-banks, tech providers and policymakers. While the
1. The importance of engagement vs. enforcement

The UK regulators have focused on fostering innovation and competition across the financial services sector. For example, the FCA has a “principles-based” approach to regulation, meaning that it enforces ideas rather than just holding companies accountable to a set of rules, as in the United States.

Many of our members operating in both the US and the UK believe a principles based approach is beneficial when it comes to testing new ideas and supporting an iterative approach to innovation in regulated activities.

Of equal importance is a regulator engaging with the financial innovation process before any necessary enforcement of the rules.

FinTech, unlike other tech verticals in non-regulated areas, will increasingly require innovation within the regulator itself to support and understand new business models.

Innovation is not confined to disruptors and FinTech start ups but is also central to the transformation of the banking system, as banks themselves invest in digital products and collaborate with a range of new players. Early engagement with financial institutions, start-ups and tech providers, will be critical to supporting responsible innovation.

2. The sandbox approach to innovation

One of the options being pursued by the FCA and other global regulators including the Monetary Authority of Singapore (MAS) is the “sandbox” approach to innovation in regulation.

The regulatory sandbox is a progression of Project Innovate, an initiative which was launched in October 2014, to help the FCA encourage innovation in the interests of consumers and promote competition through disruptive innovation.

The Sandbox is designed to create a ‘safe space’ in which businesses can test innovative products, services, business models and delivery mechanisms in a live environment without immediately incurring all the normal regulatory consequences of engaging in the activity in question.

The objective is to deliver effective competition in the interest of consumers. It is designed for both licensed and unlicensed firms of all sizes. Fully regulated banks will also be able to utilize the regulatory sandbox.
The sandbox has not yet fully operational but this approach could support a number of the principals set out in the OCC paper, including a commitment to responsible innovation.

**Central Innovation Office**

The Paper also explores the need for a centralized innovation office. The FCA’s innovation Hub is in effect a centralized office of innovation within the FCA.

The FCA Innovation Hub has so far primarily helped new entrants and challengers but is open to financial institutions of all sizes and to facilitate more open, timely, and on-going dialogue regarding opportunities for innovation. The FCA’s own figures in their latest business plan show 177 innovative businesses were helped by Project Innovate in the first year, 18 have been authorised, and 21 are in the process of going through the authorisation process.

Despite this neither the Innovation Hub nor the forthcoming sandboxes will be suitable for all innovators. There will be resources constraints and current rules will also restrict blue-sky technological Innovation if it contradicts current regulations.

**3. Importance of open data**

The regulation that may have the most impact both on banks and FinTech start ups in Europe is the Second Directive on Payment Services (PSD2), which will require banks to open up their systems and data to third-party service providers. This should allow for the development of money management platforms and third-party online payment mechanisms. This will open up banks as “platforms” for other market participants, using bank data to add value to their proposition.

The UK is building on PSD2 and has set out a framework for a standard bank API which has the potential to open up not just payments but current account information to a wide rage of financial services such as loans and mortgages.

This is being supported by the rise of Application Programming Interfaces (APIs), which allow two separate software applications or ‘apps’ to talk to one another and exchange information directly in a secure way.

Open data could potentially support a range of new business models, and bank data will help consumer’s compare and contrast. Open data sets, many of which will be owned by states and public institutions, has the power to reduce friction in the economy and boost innovation and competition that helps stimulate growth. They can also help people identify efficiencies and
open up new ways to trade, encouraging transparency and collaboration throughout networks across the sector.

Banks in the UK and Europe have embraced the opportunities presented by open data and APIs and have actively designed a common API standard for UK banks, which will be implemented following recommendations from the UK Treasury and the Competition and Markets Authority.

Data security is critical to the API standard but the emphasis has been placed on empowering consumers with their own data. This approach will create new markets for banks and FinTech start ups while empowering previously inert consumers.

4. Promotion of common partnerships

One of the defining features of the FinTech economy has been the rise of the disrupter or FinTech start up seeking market share at the expense of incumbents.

This is only a very small part of the story. The vast majority of FinTech innovators want to work with banks and other institutions that are themselves motivated by a need to utilize and deploy innovation developed outside of their 4 walls.

The list of partnerships is extensive from marketplace lenders and deposit taking institutions to trading desks and RegTech providers.

The proliferation of APIs, which allow third party tech providers to plug into a banks data systems and will further accelerate the importance of FinTech partnerships to banks’ own innovation agendas.

Promotion of the common partnerships by the OCC will encourage adoption and encourage integration of innovation into banks strategic planning.

5. The benefits of a framework approach and interoperability

The UK has only three financial services regulators: the Prudential Regulatory Authority (PRA), an agency within the Bank of England, the Financial Conduct Authority (FCA) and the new Payment System’s Regulator (PSR).

The United States has multiple federal and state regulators with overlapping jurisdictions many of which will impact FinTech firms. This has the potential to hold back innovation to the detriment of the consumer.
The limited and centralised nature of the UK system has supported the development of a coordinated FinTech regulation strategy. This is not the case in a federated United States.

Despite the fragmented nature of the US system increased coordination and collaboration among regulators could provide clarity and consistency for innovators.

The FCA’s Innovation Hub as the central innovation office for UK financial services is a useful one stop shop for innovators and demonstrates the role the OCC could help play in bringing the ecosystem together.

The OCC also grants federal licence, or charter, to banks and it is conceivable that this could be extended proportionately to other institutions that operate nationally, such as marketplace lenders or payment processors.

Finally the OCC should work with regulators to create a common taxonomy to help regulators operate within a new tech focused landscape. We would encourage the OCC to put technology at the heart of what they do and how they communicate.

6. Political support for financial innovation

The UK government has explicitly supported FinTech partnerships with banks through active policy decision and executive leadership. The narrative in the UK has been one of the most striking when compared with the more cautious approach of government and regulators in the United States.

This is starting to change as the top US bank regulators — the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency — are also stepping up their FinTech work, as is the Consumer Financial Protection Bureau, a watchdog set up after the last financial crisis.

This is the start of a journey but explicit executive support permeates policymaking and supports the development of a coordinated FinTech ecosystem.

Daniel Morgan
Head of Policy and Regulation
Innovate Finance