

## [Banking and Finance Law Daily Wrap Up, TOP STORY—OCC's responsible innovation framework paving way for new charter?, \(Oct. 27, 2016\)](#)

Banking and Finance Law Daily Wrap Up

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As it moves closer to the possible granting of a "special purpose" national bank charter to a financial technology (fintech) company, the Office of the Comptroller of the Currency has established an Office of Innovation as part of its efforts to improve the agency's ability to identify, understand, and respond to financial innovation affecting the federal banking system.

The Office of Innovation is part of the OCC's "[Recommendations and Decisions for Implementing a Responsible Innovation Framework](#)," which will be the blueprint that the agency will use to support the ability of national banks and federal savings associations to fulfill their role of providing financial services to consumers, businesses, and their communities through responsible innovation that is safe and sound, consistent with applicable law, and protective of consumer rights. Commenting on the Office of Innovation, Comptroller of the Currency Thomas Curry [noted](#), "By establishing an Office of Innovation, we are ensuring that institutions with federal charters have a regulatory framework that is receptive to responsible innovation and the supervision that supports it."

**Framework's roots.** The Responsible Innovation Framework is the result of an initiative, that Comptroller Thomas Curry announced in August 2015, to improve the OCC's ability to identify and understand trends and innovations in the financial services industry as well as the evolving needs of consumers of financial services (see *Banking and Finance Law Daily*, [Aug. 10, 2015](#)).

Subsequently, the OCC issued a white paper, entitled "[Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective](#)," in March 2016, that discussed a set of eight principles that would guide the development of the agency's framework for evaluating new and innovative financial products and services (see *Banking and Finance Law Daily*, [March 31, 2016](#)).

It should also be noted that, in September 2016, the OCC released a [notice of proposed rulemaking](#) that would establish a framework to address the conduct of receiverships for national banks that are not insured by the Federal Deposit Insurance Corporation. The OCC's proposal is seen, by many in the banking industry, as a prelude for the agency to grant a national banking charter to a fintech, such as an online marketplace lender (see *Banking and Finance Law Daily*, [Sept. 12, 2016](#)).

**Recommendations.** Besides the establishment of the Office of Innovation, the framework also provided that the OCC should:

- establish an outreach and technical assistance program;
- conduct awareness and training activities;
- encourage coordination and facilitation;
- establish an innovation research function; and
- promote interagency collaboration.

**Office of Innovation.** Among other things, the Office of Innovation will: 1.) serve as a central point of contact and facilitate responses to inquiries and requests; 2.) monitor the evolving financial services landscape; and 3.) collaborate with domestic and international regulators. In announcing the framework, Curry noted that Beth Knickerbocker will be acting Chief Innovation Officer.

**Outreach and technical assistance.** The framework calls on the OCC to develop a wide-reaching outreach program that enables the agency to maintain a broad understanding of industry trends as well as the needs of consumers of financial services from all stakeholder perspectives. It was noted that the innovation outreach

strategy can leverage existing agency avenues for outreach with banks and community and consumer groups. A formal outreach program for nonbanks would need to be developed.

**Awareness and training activities.** To build an effective awareness and training program to ensure adequate evaluation and supervision of new products, services, and processes by a well-informed staff, the framework recommends:

- improved staff awareness of industry innovations and developing trends;
- the creation of additional training content necessary to evaluate and understand industry innovations; and
- broadening and increasing OCC expertise in areas related to innovation.

**Coordination and facilitation.** Given that inquiries and requests related to innovation may be new and potentially novel, it is important that the OCC have well-coordinated, consistent, and timely responses wherever possible. To achieve this goal, the framework recommends that the OCC should:

- improve the timeliness and transparency of its decision-making; and
- develop and implement an optional program for OCC participation in bank-run pilots.

**Innovation research function.** To address the rapid and dramatic advances in fintech, the OCC needs to improve its ability to identify and understand trends and innovations in the financial services industry. The framework envisions the OCC should:

- develop a research function within the Office of Innovation to analyze how innovation affects individual banks, bank segments, and the federal banking system as a whole; and
- use research and dialogue with industry, consumer, and community groups to inform policy and guidance

**Promote interagency collaboration.** Finally, to promote collaboration, the framework calls on the OCC to:

- leverage existing interagency channels at both the domestic and international levels; and
- develop an OCC-led information-sharing group.

**Industry reaction.** Following the OCC's announcement, Rob Nichols, president and CEO of the American Bankers Association said, "We are encouraged by the steps OCC is taking to help facilitate financial innovation. We appreciate their responsiveness to our feedback for instance, our suggestion to establish a resource center, and to provide community banks with technical assistance and resources for working with third parties." He added, "The OCC's efforts to test innovative financial products in a controlled environment are a step in the right direction. Ultimately, banks should be able to pursue innovative initiatives to serve their customers in an environment that provides regulatory flexibility and clarity."

Tim Pawlenty, CEO of the Financial Services Roundtable, applauded the OCC "for establishing these forward-thinking measures that will help America's innovators develop the big ideas of the future." He added, "Regulators should encourage FinTech innovation that benefits consumers, enables the financial and technology industries to further collaborate, and helps grow the economy."

Companies: American Bankers Association; Financial Services Roundtable

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