ICBA
INDEPENDENT COMMUNITY
BANKERS *of* AMERICA®

Via Electronic Submission

March 8, 2021

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Dear Assistant Director Epstein, Chief Innovation Officer Knickerbocker, Deputy Associate Director Jain, and Chief Innovation Officer Meghji:

On behalf of the Independent Community Bankers of American ("ICBA")[1] and the community banks that we represent, I would like to sincerely thank you for your recent visit to ICBA's ThinkTECH Accelerator, the only program in the country that is exclusively focused on cultivating community bank-enabling fintechs. Because of your visit, the Accelerator's fintechs are better informed of the regulatory perspective as they prepare for potential partnerships with community banks. Your visit not only benefited the fintechs, but it also demonstrated your dedication to crafting a regulatory environment where bank-fintech partnerships can thrive, benefiting community banks and the customers that they serve.

[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.*

With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5 trillion in assets, over $4.4 trillion in deposits, and more than $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

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Innovation and bank-enabling fintechs are critical to the future of community banking
As you are already aware, and as reiterated during your visit, community banks are focused on helping their customers. Among the wide array of technological products and services that are available, community banks prioritize technology that can help them serve their customers better.[2] But rather than develop this technology in-house, many depend on third-party relationships or partnerships. Nearly 80 percent of community banks "rarely" or "never" rely on in-house technology for nonlending digital banking products and services, and just over 70 percent for online loans.[3]

Partnering with fintech companies can offer valuable relationships that help community banks enhance the customer experience. Community banks seek fintech solutions that can leverage new opportunities, such as the ability to forge deeper relationships with their customers and communities, target new markets, and keep pace with customers' expectations.

To aid community banks that want to partner with fintechs, the ThinkTECH Accelerator is designed to provide early-stage fintechs with experience and insight into what community banks will be looking for when considering third-party relationships. The Accelerator acts as a kind of laboratory where fintechs can develop relationships with community bankers, glean insights about the industry's goals, receive a dose of compliance due diligence, and hopefully plant the seed for successful partnerships.

Offices of Innovation encourage innovation and fintech partnerships at community banks
Just as the ThinkTECH Accelerator is designed to provide practice-based applications to nourish bank-enabling fintech partnerships, ICBA believes that your Offices of Innovation ("Offices") provide significant value when researching and developing policy-based solutions that nurture these relationships. Over the past several years, your Offices have helped community banks by hosting office hours, publishing guidance on novel technologies and techniques, launching and/or considering pilot programs, initiating competitions and tech sprints, issuing advisory opinions and safe harbors for approved activities, and seeking greater information and knowledge from a wide swath of stakeholders.

This effort has proven to be invaluable for community banks as they seek to forge a path for the future. By studying the bank-fintech partnership environment, planting the seeds for policy initiatives, and figuring out how best to make it grow, your Offices collectively help these relationships flourish.

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[2] FDIC Community Banking Study, Dec. 2020, at 6-4, stating, "When asked to describe the 'most promising opportunities facing your bank regarding new technology,' community banks focused more on their customers than on other potential benefits, such as cost savings and efficiency gains."
[3] *See* "CSBS 2020 National Survey of Community Banks," Sept. 2020 ("CSBS Survey"), Figures 56 and 57, at 42.

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Your work helps identify ideas and solutions that will advance the ecosystem of community bank relationships with fintechs. ICBA encourages you to carry forth the policy initiatives that your Offices have already developed, and to continue developing even more robust and nimbler policies in the future. ICBA and community bankers firmly support your cause.

Building on successful innovation policies with an eye toward the future

As your Offices look for opportunities to identify banking policies that could invigorate the community bank-fintech partnership model, ICBA encourages each of you to continue exploring new opportunities, commissioning new studies, and developing new policies and programs that: (1) reduce the regulatory cost to banks of establishing new fintech relationships; (2) develop programs, policies, and other initiatives that allow for supervised experimentation of novel products and services; and (3) convene stakeholders that are interested in community bank collaborations – not just between banks and fintechs, but also among banks that wish to collaborate with each other in pursuit of fintech partnerships.

1. <u>Reduce the regulatory costs to banks of establishing new fintech partnerships</u>
ICBA reiterates the concerns of others that have noted the inefficiencies of each bank subjecting each third-party to the same or similar due diligence and monitoring requirements.[4] More than 40 percent of community bank respondents to a recent survey said the expectations of bank supervisors regarding due diligence of a third-party provider to some extent impeded the establishment of new relationships with fintechs.[5] Regulators can contribute to an environment where banks are empowered to achieve supervisory goals by simplifying and clarifying the process of third-party service provider selection, due diligence, and monitoring. ICBA applauds several reform initiatives that have been proposed and encourages continued development in this space.[6]

2. <u>Develop programs, policies, and other initiatives that allow for supervised experimentation</u>
ICBA supports innovation programs that are designed to mitigate the slow-moving realities of the traditional rulemaking process, such as programs that allow banks to conduct in-market testing or seek advisory opinions. These programs are nimbler alternatives to the formal rulemaking process, yet still have transparent components that are the hallmark of traditional rulemaking tools. This appropriately balances the need to rapidly adapt to advances in technology with the need to closely monitor these relationships.

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[4] *See* Governor Michelle W. Bowman, "Direction of Supervision: Impact of Payment System Innovation on Community Banks," (Feb. 27, 2020), remarks made at, "Age of Advancement: The Intricacies of a Digital World" 2020 Banking Outlook Conference sponsored by the Federal Reserve Bank of Atlanta, Atlanta, Georgia, available at https://www.federalreserve.gov/newsevents/speech/bowman20200227a.htm.

[5] CSBS Survey, Figure 79 at 48.

[6] *E.g., see* ICBA's response to FDIC's Request for Information, regarding Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology, available at https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-regulators/icba-response-to-fdic-request-for-information.pdf?sfvrsn=4ee3817_2.

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3. <u>Convene and encourage collaboration among community banks</u>
Given that a large number of community banks are well-versed and experienced in partnering with fintechs, ICBA believes that there are opportunities for collaboration among community banks to jointly partner with fintechs. Some Offices have studied what these collaborations might encompass, and we encourage further exploration toward this endeavor.[7] Your agencies, along with ICBA, hold tremendous power to convene community bankers.[8] Together, we can unleash ideas and identify common causes, where economies of scale can accelerate leveraged investment opportunities for community banks. ICBA's inaugural ThinkTECH Policy Summit in December of last year was a first step toward this goal.

Additionally, ICBA would welcome the opportunity to jointly explore structures for banks to partner and collaborate with each other to jointly invest in or utilize the services of fintechs. This would present certain economies of scale. ICBA has identified existing legal structures that would permit such activity,[9] but we encourage the Offices to use their full array of tools to create new structures of which community banks could take advantage.

In conclusion, we sincerely thank you and your teams for your continued pursuit to encourage and facilitate community bank partnerships with fintechs. So that ICBA can aid your efforts and identify areas of collaboration, please contact me at Michael.Emancipator@icba.org or 202-821-4469. We would welcome an opportunity to meet with each of you and your teams.

Sincerely,

/s/

Michael Emancipator
Vice President and Regulatory Counsel

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[7] *See* OCC Bulletin 2020-10, March 5, 2020, Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29, questions 12-15 "Collaboration can leverage resources by distributing costs across multiple banks. In addition, many banks that use like products and services from technology or other service providers may become members of user groups."
[8] *See* Jelena McWilliams, Keynote Remarks on the "The Future of Banking" at The Federal Reserve Bank of St. Louis; stating, "The FDIC will play a convening role to encourage community bank consideration of how technological developments could impact their businesses and to ensure community bank perspectives are considered in industry-led efforts to establish standards."
[9] Community banks are able to jointly form operating subsidiaries under 12 CFR 5.34, financial subsidiaries under 12 USC 24a and 12 CFR 5.39, bank service companies under 12 CFR 5.35, and bankers' banks under 12 USC 24.