

Oral statement of Donna Murphy  
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Before the  
Subcommittee on Digital Assets, Financial Technology and Inclusion  
U.S. Committee on Financial Services  
United States House of Representatives  
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Chairman Hill, Ranking Member Lynch, and Members of the Subcommittee, I am pleased to appear today to discuss the activities and initiatives of the Office of the Comptroller of the Currency's Office of Financial Technology.

I am currently serving as the Acting Deputy Comptroller for the Office of Financial Technology, in addition to my permanent position as Deputy Comptroller for Compliance Risk Policy. In my Acting capacity, I oversee the agency's work relating to the analysis and evaluation of financial technology innovations, trends, emerging risks, and implications for OCC's supervised banks. My team of Financial Technology Policy Specialists supports the development of policy guidance, outreach, training, and supervision resources for fintech-related business models, platforms, and applications.

Over the years, the OCC has adapted its supervisory approach to address the many technological innovations by OCC-supervised banks, and to support responsible innovation in the banking industry. In 2016, the OCC became the first federal banking agency to establish a dedicated Office of Innovation in order to provide a framework for activities related to financial technology innovation. For the last six years, the Office of Innovation has also conducted outreach, such as designated office hours in which stakeholders – including technology firms, banks, trade associations, academics, and consumer groups – interact with the agency.

Information gained from this outreach facilitates our supervisory approaches to supporting banks in responsibly innovating through the use of advanced technologies.

In October 2022, the OCC announced that it would build upon this work by creating the Office of Financial Technology, which incorporates the former Office of Innovation. The new Office is focused on supporting responsible innovation and ensuring high-quality guidance and supervision for banks' financial technology implementation.

The OCC's current financial technology focus includes matters involving bank/fintech partnerships, artificial intelligence, digital assets and tokenization, as well as other new and changing technologies and business models that affect OCC-supervised banks.

Banks' relationships with third parties, including fintech companies, continue to expand. The use of third parties has significant potential benefits, but strong third-party risk management is essential to avoid harm to consumers or weakening of bank safety and soundness. Earlier this year, the OCC, FDIC, and Federal Reserve published "Interagency Guidance on Third-Party Relationships: Risk Management." This document reminds banks of their responsibility to operate in a safe and sound manner and in compliance with applicable laws and regulations regardless of whether their activities are performed in-house or outsourced.

The OCC also recognizes the considerable and growing interest by the banking industry in a wide range of uses for artificial intelligence. When used appropriately, AI applications such as chatbots, enhanced credit screening and fraud detection systems, have the potential to strengthen safety and soundness, improve banks' ability to address financial crime, and increase fair access to the banking sector for consumers. Banks also are exploring newly developed kinds of AI, such as "generative" AI, that can be used to generate text, images, or other outputs from a

given prompt. OCC-supervised institutions are approaching generative AI with caution and its use is not widespread in the federal banking system. For all uses of AI in the banking sector, the OCC remains focused on the potential risks of adverse outcomes if bank use of AI is not properly managed and controlled. We continue to perform robust, risk-based supervision, monitor the industry, and conduct research to ensure that the agency keeps pace with financial sector changes.

In addition, the OCC recognizes the potential of other technologies, including distributed ledger technology, and we maintain a careful and cautious approach to their use while industry standards develop, and legal and ethical questions are addressed. Overall, however, the financial industry's attention in the digital asset space appears to be shifting to the tokenization of assets and liabilities. Tokenization is driven by solving real-world settlement problems and shows promising potential. In February, the OCC will host a public symposium on tokenization to explore its legal foundations, use cases, and risk management and control considerations.

My written statement also discusses ways financial technology innovation can be used to increase access to traditional financial services and describes some of the OCC's efforts to support this important objective.

In closing, rapid financial technology innovation requires a robust approach by financial regulators. The OCC is committed to helping banks innovate while evolving in a safe, sound, and fair manner. Thank you, I would be happy to answer questions about the OCC's work to support financial technology.