

To: The Office of the Comptroller of the Currency  
[innovation@occ.treas.gov](mailto:innovation@occ.treas.gov)

From: Steven Pae  
SVP / Technology and Operations  
CIT Group  
1 CIT Drive, Livingston, NJ 07039  
973-535-3525  
[Steven.Pae@cit.com](mailto:Steven.Pae@cit.com)

Re: Request for Response to: Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective

Date: May 31, 2016

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As the OCC continues to develop its framework to support responsible innovation in the federal banking system, it seeks feedback on all aspects of this paper. On behalf of CIT Group, I have prepared our thoughts to the questions provided in the white paper. Please review and contact me for any further information on the responses.

1. What challenges do community banks face with regard to emerging technology and financial innovation?

First we would like to acknowledge the OCC for taking a proactive and partnership approach to the topic of "Responsible Innovation." We agree that the landscape of banking is changing with the emergence of Fintech companies that are more nimble, have less regulatory oversight and not burdened by traditional costs. With proper engagement, thoughtfulness and partnership, we agree that innovation can be a powerful catalyst to banking and can benefit our communities.

Community banks face aging technology systems that require on-going costs to maintain, regulatory requirements that translate into additional processes and controls and lack the online presence that limit them to the geography in which they operate. Controls and processes are important to safeguard our customers and the banking system but they do translate into costs which take away from funding required for innovation and use of emerging technology.

The pace of technology has exponentially grown and it is difficult for community banks to understand where to invest and how to take the investment quickly to market to realize the benefits before a new technology emerges. In addition, community banks do not seem to attract the same attention from fintech product companies that want to

sell to them which is an avenue for understanding new product innovation and trends in the market.

A couple of examples to note are:

- a. Blockchain and the use of this technology to disrupt the banks ledgers that involve multiple parties have been well publicized recently. Many private consortiums have also emerged to provide advantages to the member banks and non-bank organizations in piloting such technology within their business operations.
- b. Fintech companies with very little legacy technology have moved directly into web-scale technologies to take advantage of cloud computing and newer technology architecture. This provides a large advantage to the organizations that can invest heavily into this space and not burdened with legacy technology operating costs.

2. How can the OCC facilitate responsible innovation by institutions of all sizes?

We believe the OCC can take an important role in facilitating responsible innovation for institutions of all sizes. Smaller institutions may not be able to invest in innovation given their limited budgets versus larger institutions. Smaller firms should participate in open dialogue with larger firms facilitated by the OCC to identify areas for innovation, participate in joint investments for innovation proportioned to the size of the firm and develop partnerships to go to market strategies. We believe that the banking industry as a whole can benefit from innovation that can provide fair and transparent use of innovation regardless of size of the institution.

By creating a forum and fostering cooperation among firms of all sizes, the OCC can ensure innovation takes into account the needs from community banks to large national banks. If the OCC develops an innovation forum, bank, non-banks, product and service providers should be have an opportunity share ideas, perspectives and have a say in how innovation can be taken to market. We see this in a few steps:

1. Create representation from institutions that want to participate in innovation forums
2. Create specific areas of interest and topics for innovation
3. Elect a lead for each area and participant members
4. Have members work together to identify the innovation, what business problem is worth solving and then a proposal
5. Finally present the proposal with the OCC for incorporating into the member institutions

A thoughtful structure will be necessary to ensure there is proper value from the innovation forums.

3. How can the OCC enhance its process for monitoring and assessing innovation within the federal banking system?

First we didn't know OCC had a process for monitoring and assessing innovation. We think the first thing is to communicate that such a process exists and how it works. As for what this can look like, we believe in using innovation for monitoring innovation. The OCC can help promote responsible innovation by taking an innovative approach by working with banks to submit key innovations for review. By creating such a forum, the OCC can encourage participants to share their ideas, provide a forum for discussion, and invest in ideas that can benefit the community and the banking system.

4. How would establishing a centralized office of innovation within the OCC facilitate more open, timely, and ongoing dialogue regarding opportunities for responsible innovation?

We believe by establishing a centralized office of innovation, the OCC can encourage sharing ideas that require OCC's guidance and insights by getting ahead of any concerns that may manifest later during the development of the innovation, be able to share ideas that would be of benefit to all banks regardless of size by fostering open discussion and feedback from other banking institutions, and possibly even encourage collaboration by different institutions to further develop and bring the innovation to market. Smaller banks that cannot fully invest in innovations can partner with other banks and larger banks can immediately have benefit of a wider market to test the innovations.

5. How could the OCC provide guidance to nonbank innovators regarding its expectations for banks' interactions and partnerships with such companies?

The OCC can definitely provide guidance to nonbank innovators and establish clear rules for how products are brought to the market. Nonbank innovators do not have the same regulatory framework that banks need to operate in.

At the same time, we do not want to stifle innovation by non-banks. Banks benefit from the non-banks' innovation as they can move faster and develop cheaper than banks. We feel there is a right balance between oversight and allowing non-banks to continue to innovate and one way is to have non-banks partner with banks in providing guidance and a test market for the innovation.

6. What additional tools and resources would help community bankers incorporate innovation into their strategic planning processes?

There are many tools and resources that are leveraged today to incorporate innovation into the strategic planning process. We believe that being innovative means that alignment and iteration needs to always be considered. Alignment means making sure

that technology, business, and operations need to be strategically aligned on understanding the business problem that the innovation is trying to solve. Once aligned, innovation only comes with iteration and failure. One needs to be constantly iterative based on feedback and failure until the innovation is ready for market.

7. What additional guidance could support responsible innovation? How could the OCC revise existing guidance to promote responsible innovation?

We submit the following 3 items for further consideration:

- a. Additional guidance on proper risk checks
  - b. Additional guidance on testing
  - c. Additional guidance on stress testing
8. What forms of outreach and information sharing venues are the most effective?

The OCC should consider how they can be innovate themselves in approaching the topic of innovation. As non-traditional methods have emerged for communication, collaboration and partnerships, the OCC should consider using social media tools as a means to communicate and solicit ideas from the community. In addition the OCC should consider providing regular communication to banks on via video casts. Finally instead of traditional calls and face to face meetings, the OCC should consider leveraging streaming video and chats.

The OCC as being a visible partner in creating responsible innovation should be part of fintech conferences, sponsor fintech events and communicate regularly via email on innovation topics to banks and nonbanks.

9. What should the OCC consider with respect to innovation?

The OCC should consider the following with respect to innovation:

- A. How do we partner with non-bank entities to jointly create and develop innovation?
- B. How do we ensure there are proper rules of engagement of taking innovation to market?
- C. How do we ensure the OCC doesn't stifle innovation?