



May 26, 2016

The Honorable Thomas Curry  
Comptroller of the Currency  
400 7th Street, SW  
Washington, DC 20219

## **Re: Supporting Responsible Innovation in the Federal Banking System**

Dear Comptroller Curry:

Citi welcomes the opportunity to comment on the Office of the Comptroller of the Currency's March 2016 white paper "Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective." We hope our input can be of help, and we would like to view this initial comment letter as only the beginning of a longer-term engagement with the OCC with the objective of promoting fast, safe and responsible innovation in the U.S. and around the world.

The OCC's initiative is both timely and important. Technological innovation is enabling financial institutions and other financial service providers to engage with ever broader segments of the global population, thanks to the widespread reach of data networks, smartphones and other developments into so many homes. Across industries, more and more products and services are now delivered digitally. Smartphones are overtaking computers as the favored means of internet access, without distinction of segment, age, or geographic location. Properly harnessed, emerging financial technology ("FinTech") has the potential to greatly expand and improve access to commercially viable and responsible financial products and services to all consumers, including the approximately 68 million Americans who are today underserved –as the OCC white paper points out- at great cost to themselves, the communities they live in, and the country as a whole.

The importance we assign to the FinTech phenomenon and the transformational potential we deem it to have are such that we recently created a dedicated unit, called Citi FinTech, to help concentrate our efforts in this field. In addition to benefiting from Citi's distinct strengths, this agile unit seeks to engage the best capabilities, talent and partners in financial technology. As a result, we have a keen interest in the points you raise around cooperation between banks and nonbanks. However, while FinTech is an emerging factor in shaping the financial services industry, we also agree with the OCC that responsible innovation applies as much to the broader development of new products, services, partnerships with municipalities and other third parties, and alternative delivery systems and processes as it does to FinTech specifically. Citi, like many other banks and nonbanks, is developing multiple approaches (including, but not limited to FinTech) for providing safe financial

products and services to consumers, including the unbanked and underbanked. We have a dedicated global unit, called Citi Inclusive Finance, which focuses across Citi's businesses solely on this issue<sup>1</sup>.

The OCC white paper is also important and timely within a broader global context. As it notes, other countries like the United Kingdom have also witnessed significant growth in the numbers of FinTech companies. As a global institution, we also see other nations working to adapt regulatory frameworks and create fertile environments for FinTech, in a bid to become leading global centers of innovation, including Mexico, Singapore, France, and Australia. In the United States, initiatives such as the OCC's development of a responsible innovation framework can help drive forward a more unified, agile approach to regulation and supervision for pilot-type work in early-stage, non-systemic-scale innovation initiatives by banks and nonbanks, while ensuring those efforts meet legal requirements and have the necessary safeguards to keep consumer interests well protected.

In addition to enabling Fintech generally, we believe that technology can also be used to bring better products and services to the underbanked and unbanked. In 2014, Citi launched the Access Account, modeled on the Federal Deposit Insurance Corporation's safe account template.

Our experience with Citibank's Access Account provides important insights into both the demand and utilization of digital products. Designed for digital users and customers with basic banking needs, Access Account eliminates overdraft fees, has no or low monthly charges and excludes paper checks. It provides clients with access to their accounts at all Citibank branches, through more than 34,000 Citibank ATMs and Citibank-branded ATMs at 7-11 stores, and the flexibility of 24/7 online, mobile and tablet banking. The new account has been popular across client segments including youth, low- and moderate-income consumers, and those banking for the first time.

Citi broadly agrees with the eight guiding principles that will shape the OCC's approach to responsible innovation. We believe the guiding principles are essential features of the OCC's objective of monitoring, evaluating and encouraging the development of "new and improved products, services and processes to meet the evolving needs of consumers, businesses, and communities..."

As a first step towards implementing the OCC's responsible innovation framework, we submit for consideration the following responses to the Agency's questions as outlined in the white paper's conclusion.

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<sup>1</sup> Citi has invested in a range of collaborations with municipalities and community organizations to expand access to financial products and services, especially unbanked and underbanked. For example, Kindergarten to College, or K2C, is a ground-breaking collaboration between Citi and the City of San Francisco. K2C is the U.S.'s first universal child savings account program. Citi built the infrastructure that now enables every child entering San Francisco's public school system to have a college savings account automatically opened in his or her name by the City. Since its launch in 2011, over 22,000 accounts have been opened and San Francisco's families have saved over \$1.7 million of their own money towards their children's college education.

## **OCC Questions and Citi Responses**

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

**AND**

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

**AND**

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

We appreciate and value the OCC's initiative to establish a centralized office of innovation within the Agency, and we encourage the OCC to lead a cross-agency effort to rapidly set up a one-stop-shop "U.S. FinTech Regulatory Greenhouse" that can facilitate safe pilot-type, small-scale innovation by banks and nonbanks. In the absence of such an effort, even if other U.S. regulators were to follow suit and set up similar centralized offices of their own, the result would still be a fragmented multiplicity of offices – not an aligned, cohesively organized one-stop shop. A truly centralized innovation office would have to be one in which relevant U.S. regulators pool their insights and strengths and provide a more unified environment in which early-stage innovation can thrive.

A "U.S. FinTech Regulatory Greenhouse" could enable banks and nonbanks alike to innovate and carry out pilot work quickly and safely, on a level playing field that ensures consumers' interests are protected. It could also keep overhead and duplication of resources at a minimum for both banks and regulators. Precautions could be calibrated to encourage innovation while maintaining a level playing field, thus allowing everyone to innovate safely, responsibly, and with agility.

We also believe the OCC, hopefully in conjunction with its fellow FFIEC members, can establish standards for pilots and initiatives that promote innovation while avoiding undue consumer risk and protecting the safety and soundness of the issuer of the product. Other ideas could include creating guidelines for artificial test accounts fit for use in live environments (to enable testing while maintaining controls and consumer protection), and revised examination guidance and review standards for legacy systems that would facilitate our use of those systems for pilot programs.

While the United States obviously has its own set of specific circumstances, not least the size of its market, some of the regulatory developments we are witnessing around the world could also provide additional inspiration. You are most likely aware of these developments. For example, in the United Kingdom, the UK Financial Conduct Authority (FCA) is creating an environment that enables firms to test their products and services in a virtual space without entering the real market; in Singapore, the government recently launched a FinTech Office to serve as a cross-sectional entity that helps to encourage development on FinTech matters. Australia is following suit, and France and Mexico are working on similar initiatives.

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

Guidance on managing and implementing third-party oversight, particularly for new and non-core function market participants, would be invaluable. The ability to rapidly test the efficacy and scalability of novel service providers while maintaining appropriate risk-based controls is essential to the development and deployment of responsible innovation. Consistent and clear rules across the agencies for evaluating and implementing 'cloud' and Big Data services, as well as consistent information security documentation and examination standards for such providers, would greatly ease the path to innovation. Similarly, for predictive analytics and modeling that attempt to predict responsiveness and product life cycle, compliance guidance that focuses on actual risk and consequences to consumers would be very helpful. As we seek to provide relevant offers and new services to consumers, we perform exhaustive reviews of new data sources and models to insure that we treat consumers fairly and do not disadvantage any of our diverse communities. Improved guidance on the level of due diligence and required documentation would assist in testing and implementing new programs.

Citi is supportive of the OCC's fourth principle outlined in the paper, namely a commitment to "encourage responsible innovation that provides fair access to financial services and fair treatment of consumers." The Community Reinvestment Act (CRA) is a powerful tool to both promote and evaluate innovation. Historically, however, the OCC has favored brick-and mortar full-service branches under the CRA and has seen digital innovations and other alternative delivery systems as supplemental to branches despite the technological advances in retail banking and the convenience that emerging alternative delivery systems provide. The OCC white paper reiterates the view that "brick-and-mortar branches are a stabilizing force in low-income neighborhoods, and innovative technology should not be seen as a substitute for a physical presence in those communities." However, there is now sufficient evidence that bank customers use multiple channels to access banking services, whether online, on their smartphone or through other convenient touch points. Customers benefit from the convenience of these alternative delivery systems to deliver retail products and services.

With respect to CRA, we encourage the OCC to give financial institutions greater weight for alternative delivery systems if they are effective in providing needed services to low- and moderate-income individuals, rather than to view these innovations as supplemental to the branches.

Citi appreciates that the OCC is considering issuing "guidance on its expectations related to products and services designed to address the needs of low- to moderate-income individuals and communities..."

We believe that new and innovative products and services that draw more consumers into the banking systems, particularly individuals that are unbanked or underbanked, should be given greater consideration under CRA. In this regard, we urge the OCC to work with the financial services industry and issue new guidance on how financial institutions can demonstrate to the OCC that through alternative delivery systems, all consumers have fair access to these products and that the latter are both safe and responsive to consumers' needs.

## 8. What forms of outreach and information sharing venues are most effective?

Citi is pleased to learn that the OCC “may encourage innovative approaches to financial inclusion by promoting awareness of other activities that could qualify for Community Reinvestment Act consideration.”

We appreciate that the OCC already has channels in place to promote awareness of best practices, namely through CRA examinations, Interagency Q and A Guidance, informal contact with OCC experts, and the bi-annual Interagency Community Reinvestment Conferences and Community Reinvestment Awards.

One enhancement that might complement the OCC’s current efforts to share best practices and promote CRA-eligible innovation on a more timely and regular basis could be the development of an online and regularly updated catalog of OCC-selected innovative approaches. Banks and nonbanks could use the online resource as a reference to both check CRA eligibility and support the replication of innovative practices to other communities. This could have the added benefit of reducing queries from financial institutions about what is or isn’t eligible for CRA consideration.

In closing, we would like to reiterate our support for the OCC’s efforts to promote responsible innovation and to engage with banks and nonbanks on ways to make the U.S. a better environment for FinTech innovation by all, for the benefit of all. A combination of capital, skills, freedom to innovate and strong intellectual-property protections made the U.S. the natural birthplace of some of the world’s most successful digital companies. Now, for FinTech to follow the same trajectory, the path forward is to simplify our financial regulatory environment by creating a FinTech greenhouse for pilot work that also enables close collaboration with other markets.

As mentioned previously, we would like this initial comment letter to be seen as the beginning of a longer-term engagement with the OCC with the shared objective of supporting fast and safe innovation in the U.S. and around the world, and of promoting the national interest as the future of banking takes shape.

Sincerely,



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