

IIB Risk Management and Regulatory Examination/Compliance Seminar
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DEVELOPMENTS IN REGTECH AND FINTECH CHARTER

Panel Discussion

Moderator



Panelists



COVINGTON

WALTER J. MIX III

Managing Director
Financial Services Practice
Group Leader
Berkeley Research Group

SHIRISH NETKE

CEO and President
Amberoon

ANGUS GRANDFIELD

Financial Crime Compliance, Americas
Corporate and Institutional Banking
Standard Chartered Bank

MICHAEL NONAKA

Partner
Covington & Burling LLP



Institute of International Bankers

Advancing the interests of the International Banking Community in the United States

SUMMARY

- Current Status of RegTech and Banks
- Opportunities for Banks/RegTechs to Work Jointly
- Bank Business - Decisions Regarding RegTech
- Challenges for Bankers
- Enhancing Risk Management/Governance
- Implementation Issues
- Regulation/FinTech Supervision and Charter Issues
- Proposed OCC FinTech Charter
- Examples of FinTech that may succeed

OPPORTUNITIES FOR BANKS/REGTECHS TO WORK JOINTLY

- Know thy Customer!
- Demystify and understand the risks
- System of Insight
- Data warehouse
- Virtual vault
- Tailor/enhance traditional products
- Manipulate, understand data, patterns and correlations
- Example: Capital Markets
- Example: Trade Finance
- Proof of concept to Implementation

BANK BUSINESS DECISIONS REGARDING FINTECH

-Advantages of Licensing/Outsourcing-

- Lower initial cash investment
- Reduced implementation risk and operational risk
- Predictable fee structure
- Potential ability to shift risk and liability to vendor

-Disadvantages of licensing/outsourcing-

- Security compliance
- Use of cloud storage and hosting
- Control/development roadmap
- Measuring operational performance (SLAs)
- Ownership of IP
- Vendor insolvency
- Termination transition, etc.
- Third party risk management and oversight

CHALLENGES FOR BANKERS

-Banking FinTech

- Identify, understand and document the risks
- Dynamically changing models

-Mitigate the Risks

- Due Diligence
- Required documentation prior to opening
- Site visit and discussion with management
- Contractual agreements

-Ongoing Due Diligence and Monitoring

-Reputation Risk

-Compliance Risk

-Vendor Management

ENHANCING BANK RISK MANAGEMENT/ GOVERNANCE

- Trends in bank regulation- regulatory relief
- Mossack Fonseca - BSA/AML, Beneficial Ownership, and Cyber
- BSA/AML - Sanctions Fifth Pillar
- GTOs
- Smartphone environment
- AI at the enterprise level – ERM/ corporate governance/ CAMELS rating system/
CRA/credit/ other areas
- Banks of all sizes and business models/benefits for community, regional and large
banks

IMPLEMENTATION ISSUES

- Culture!
- Strategic plan/ design/ sequencing
- Existing technology at banks
- Human judgment and knowledge/understanding -BSA/AML
- Required skill sets for success
- Tone at the top/governance- board, management
- Change management
- Proof is in the pudding!

REGULATION/FINTECH SUPERVISION AND CHARTER ISSUES

- Legal concerns/ litigation
- Risk management - vendor management, viability of FinTechs, IP, privacy
- Current regulation - Safety and soundness, financial stability, consumers, financial inclusion
- OCC – Fintech charter, Varo money
- Industrial loan companies
- States
- Regulatory requirements for FinTech? (i.e., CRA, cyber security, BSA/AML, others)
- Regulatory issues going forward

PROPOSED OCC FINTECH CHARTER

- A special purpose national bank
 - Not required to be insured
 - Having National Bank Act preemption
 - Required to comply with all safety and soundness regulations
 - A robust business plan
 - Governance structure
 - Capital
 - Liquidity
 - Recovery and resolution strategies
 - Consumer protection
 - Limited to bank-permissible activities
 - Financial inclusion plan

EXAMPLES OF FINTECH THAT MAY SUCCEED

- Collaboration with banks in joint ventures
 - Banks assuming control and compliance obligations
 - FinTech charter may only work if affiliated with an FDIC-insured bank
- International trade financing/ documentation/ Blockchain
- FinTechs developing strong in-house AML compliance capability consistent with business model
- Capital Markets- Increased enforcement
- Fannie Mae initiatives-
 - Appraisals
 - Title
 - Waiving origination representations and warranties
- Rocket Mortgage
 - A1
 - 50% reduction in false red-flags for AML compliance
- The Asian/African payments alternative

Thank you!