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FDIC Becomes the Latest Federal Agency to Create an Office of Innovation; Seeks to Encourage Banks to Embrace Technological Innovation

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Press reports indicated that Federal Deposit Insurance Corporation (FDIC) Chairman Jelena McWilliams recently announced at an American Bankers Association conference that the FDIC is setting up an Office of Innovation to encourage banks to embrace and adopt fintech and innovation.

“We have created the regulatory framework where we have actually discouraged banks from innovating for a number of years. So, innovation has been happening outside of the banking sector primarily,” McWilliams reportedly stated. She explained that the FDIC could encourage innovation in three ways: through the industrial loan company (ILC), a specialized banking charter supervised by the FDIC; through the FDIC’s regulation of banks’ third-party vendor relationships; and by working with technology companies to foster and obtain improved processing, service, and efficiency at banks.

McWilliams also reportedly expressed her hope that the FDIC would take “a more holistic approach” in encouraging and promoting innovation. “How can we encourage banks to innovate? How can we bring that within the banking sector?” McWilliams reportedly stated.

This is a positive development for the industry as it demonstrates that the regulators are increasingly focused on fostering a regulatory environment that is more fintech and innovation-friendly. It also serves as a signal that the regulators recognize that the banking sector will face increasing competitive disadvantages if it does not seek to embrace technological innovation. As we have previously reported, the Treasury Department released a report this past summer that provides some recommendations on financial services regulation, including fintech innovation, and the Office of the Comptroller of the Currency (OCC), which already has an Office of Innovation, also has started to accept fintech company applications for special purpose national bank (SPNB) charters. In July, Consumer Financial Protection Bureau (CFPB or Bureau) Acting Director Mulvaney announced the establishment of the Bureau’s Office of Innovation to focus on encouraging consumer-friendly innovation, which is now a key priority for the Bureau. The CFPB states that this new office will focus on creating policies to facilitate innovation, engaging with entrepreneurs and regulators, and reviewing outdated or unnecessary regulations.

Stay tuned for further developments!