



INNOVATION:

Risk Management and Consumer Protection Considerations in the Latest Technologies

2022 Community Bankers Workshop

Objectives

FinTech

Digital Lending

Digital Assets

Artificial Intelligence/Machine Learning

Engaging in New Activities – Part 362

Third-Party Risk Management

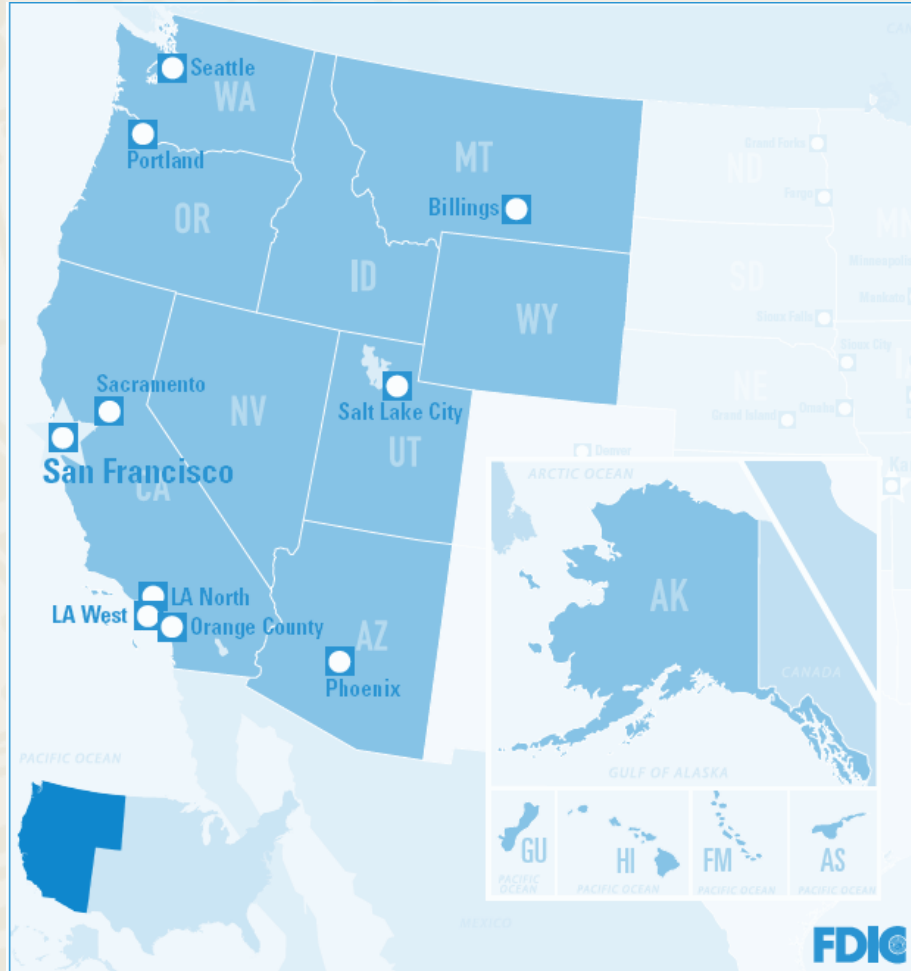
Resources

What is FinTech?

- Artificial intelligence & machine learning
- Marketplace & digital lending
- Digital payments
- Big data
- Open banking
- Distributed ledger technology
- Smart contracts
- Digital assets
- Consumer-permissioned data sharing
- Application programming interfaces



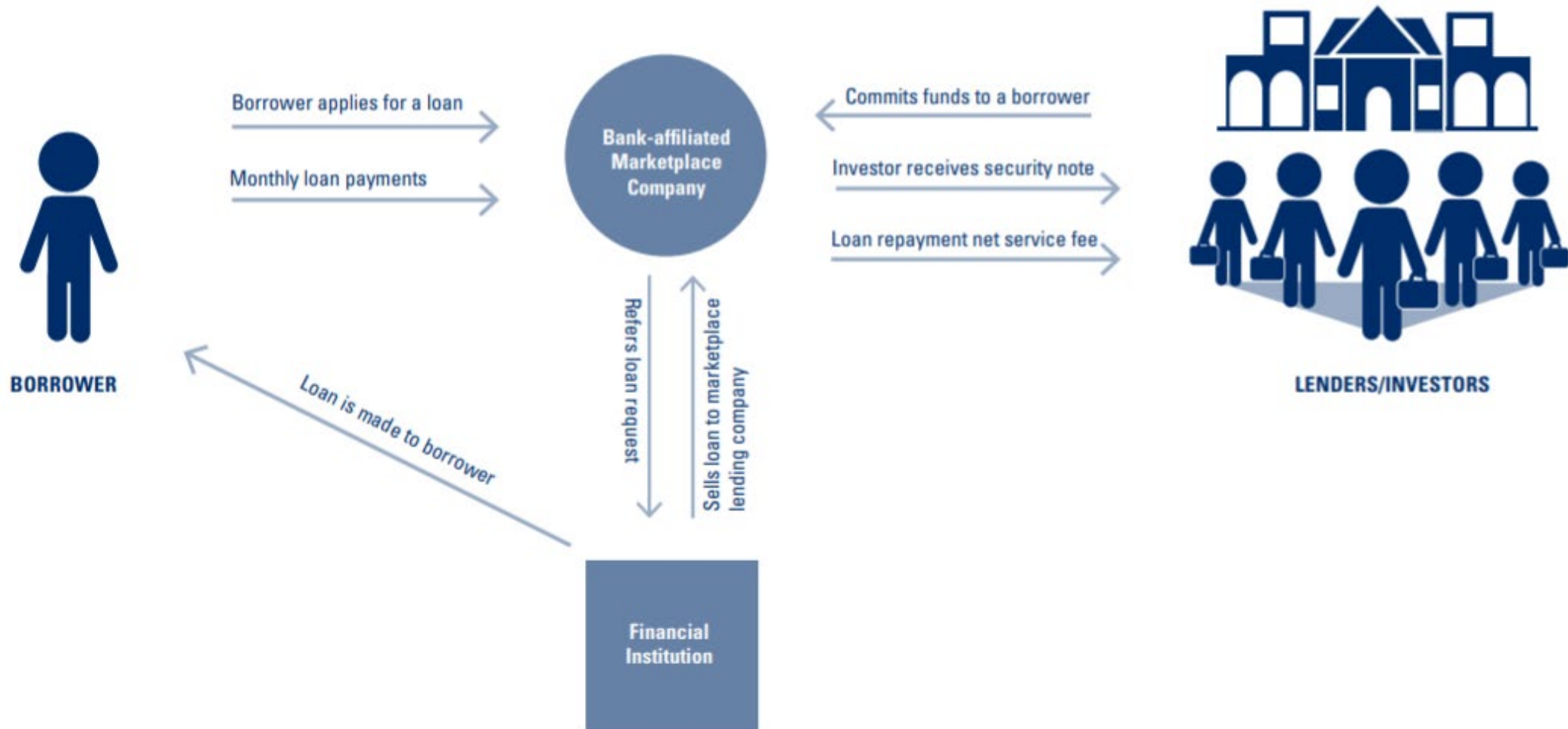
States and FinTech



- Sandboxes – Arizona, Nevada, Utah, Wyoming, Montana, and Oregon
- Wyoming – Special Purpose Depository Institution Charter
- Hawaii – Digital Currency Innovation Lab and Entrepreneurs Sandbox
- Washington – Department of Financial Institutions' Center for FinTech Information
- Oregon – Innovation Hub
- California – Office of Financial Technology Innovation

Digital Lending - Arrangements

Bank Partnership Model



Digital Lending - Arrangements

Potential Risks

Credit

Model

Strategic

Fraud

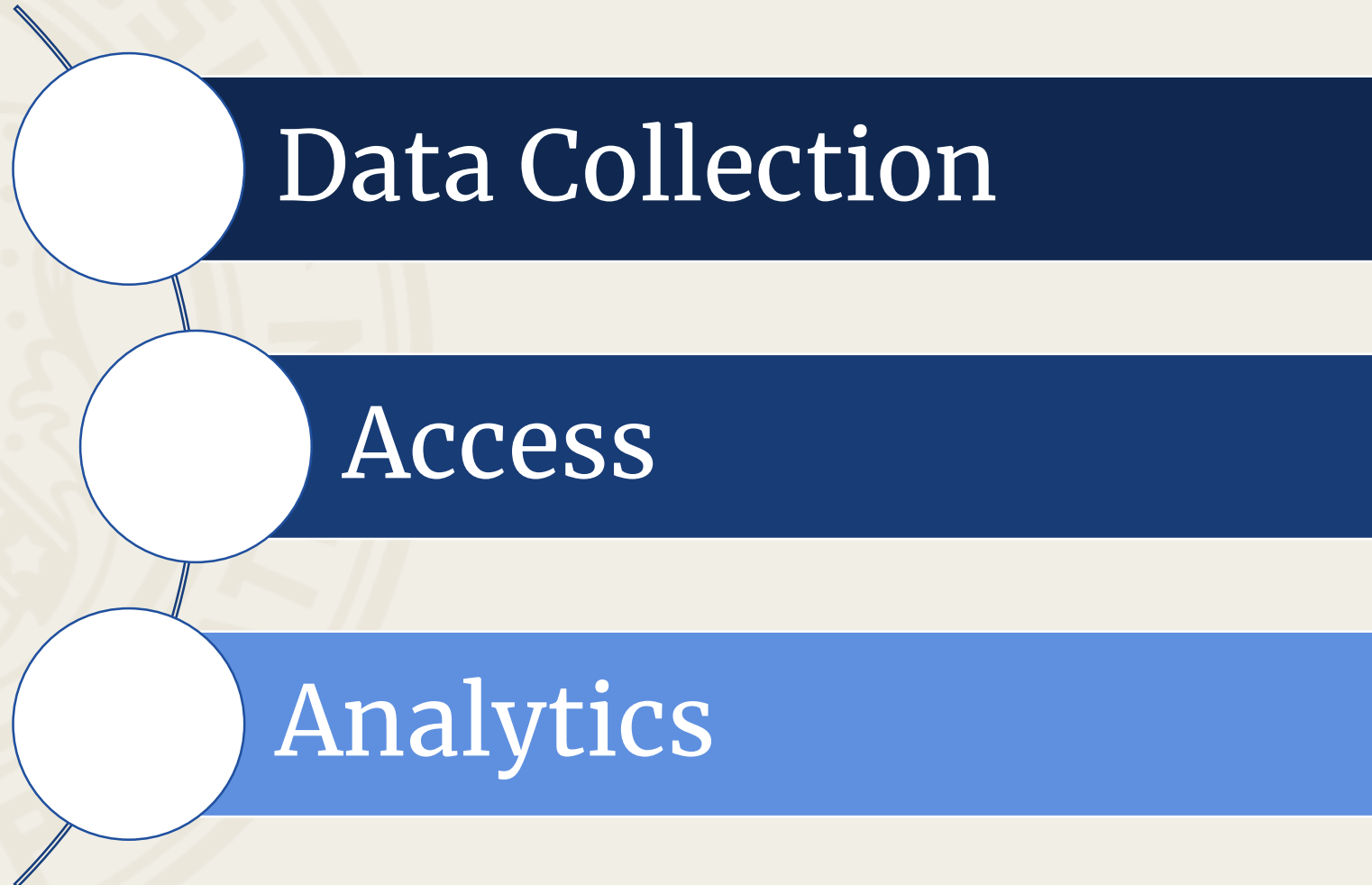
Legal /
Regulatory

Operational

Compliance

Third-Party

Digital Lending - Platforms



Digital Lending - Platforms

Potential Risks

Credit

Model

Strategic

Fraud

Legal /
Regulatory

Operational

Compliance

Third-
Party

Digital Assets

- Financial institution involvement/exploration (not indicative of permissibility)
 - Holding deposits for digital asset firms
 - Lending
 - Giving customers access to buy, sell, and trade digital assets
 - Custodial services
 - Stablecoin reserve or issuer
 - Hosting a blockchain or serving as a blockchain node
- OCC Interpretive Letters and FDIC Request for Information on Digital Assets
- Congressional interest

Digital Assets

FIL-16-2022 “Notification of Engaging in Crypto-Related Activities”

- FDIC supports innovations that are safe & sound, in compliance with regulations, and fair to consumers
- Risks are rapidly evolving and not well understood
- Potential concerns: S&S, financial stability, and consumer protection
- Prior to engaging in crypto-related activity, FDIC-supervised institutions should promptly notify the FDIC
- FDIC will provide relevant supervisory feedback

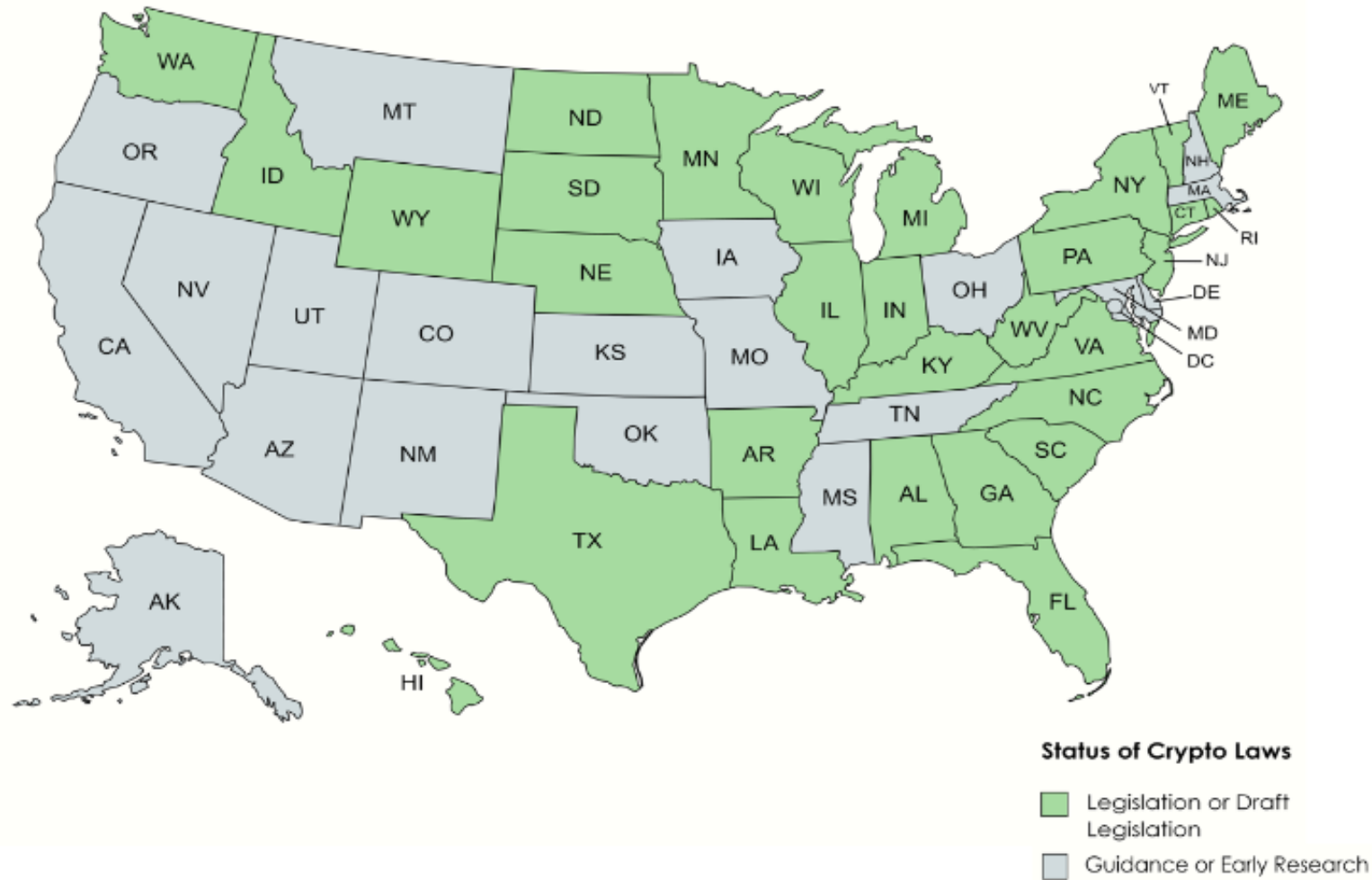
Digital Assets

FIL-16-2022 “Notification of Engaging in Crypto-Related Activities”

- **Safety and Soundness Risks:**
 - Credit, Market, Liquidity, and Operational risks
 - Ownership issues
 - AML/CFT implications
 - IT and information security controls
- **Financial Stability Concerns:**
 - Systemic risk
 - Potential “run” on assets
- **Consumer Protection Concerns:**
 - Customer confusion
 - Compliance with UDAP and other consumer regulations

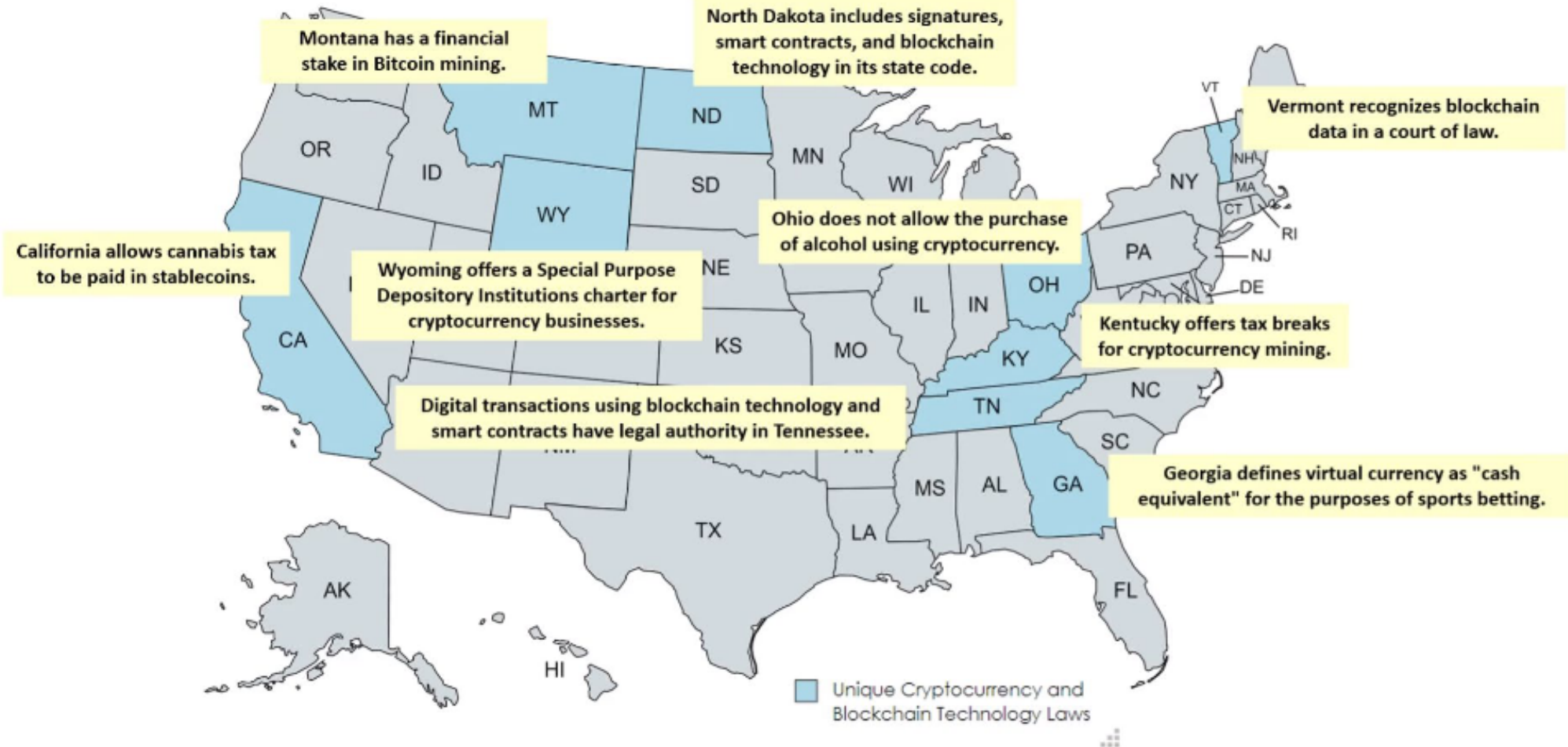
Digital Assets

CRYPTOCURRENCY LEGISLATION BY STATE

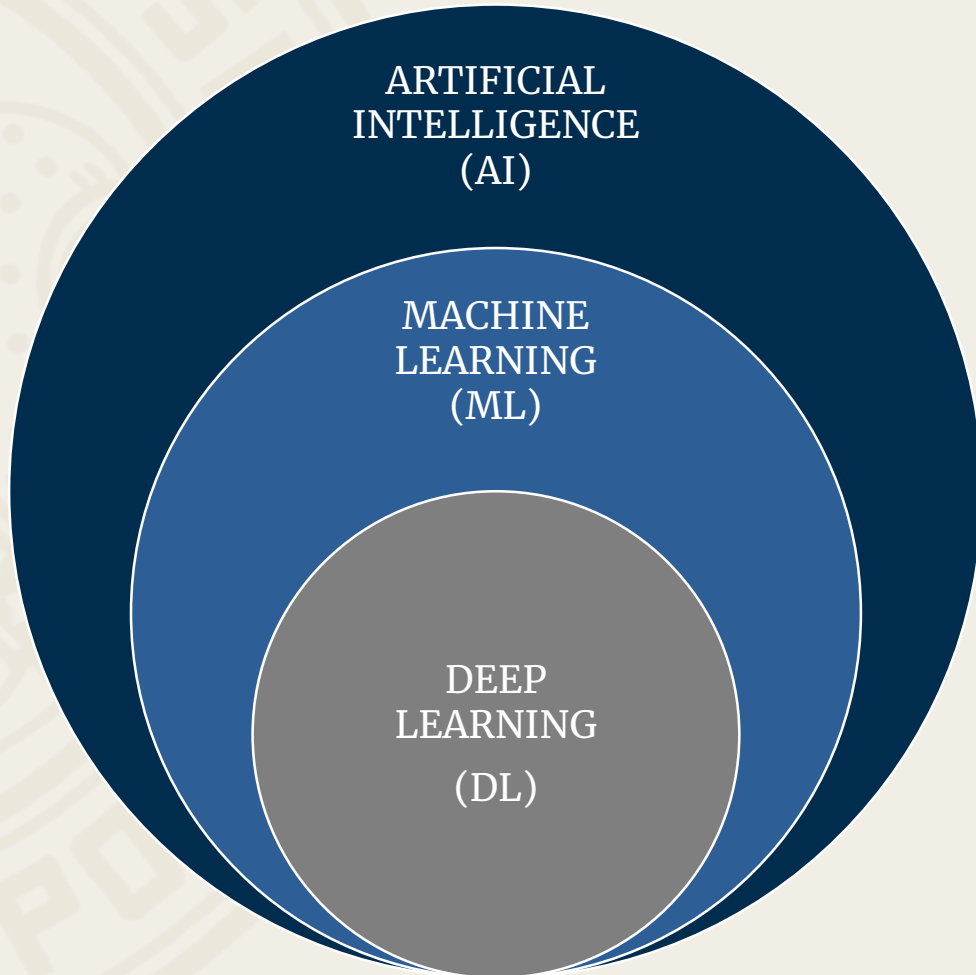


Digital Assets

UNIQUE VIRTUAL CURRENCY AND BLOCKCHAIN LAWS



Artificial Intelligence and Machine Learning



- AI – ability of a machine to imitate human intelligence and behavior
- ML – subset of AI that allows computers to learn from data and experience
- DL – subset of ML where artificial neural networks can adapt and learn from vast amounts of data

Artificial Intelligence and Machine Learning

- Credit underwriting and risk scoring
- AML/CFT monitoring
- Fraud and security threat detection
- Personalization of customer services
- Process automation
- Other backroom functions
- Biometrics



Artificial Intelligence and Machine Learning

Potential Risks

Model

Compliance

Operational

Third-
Party

Credit, Liquidity, Capital,
Market

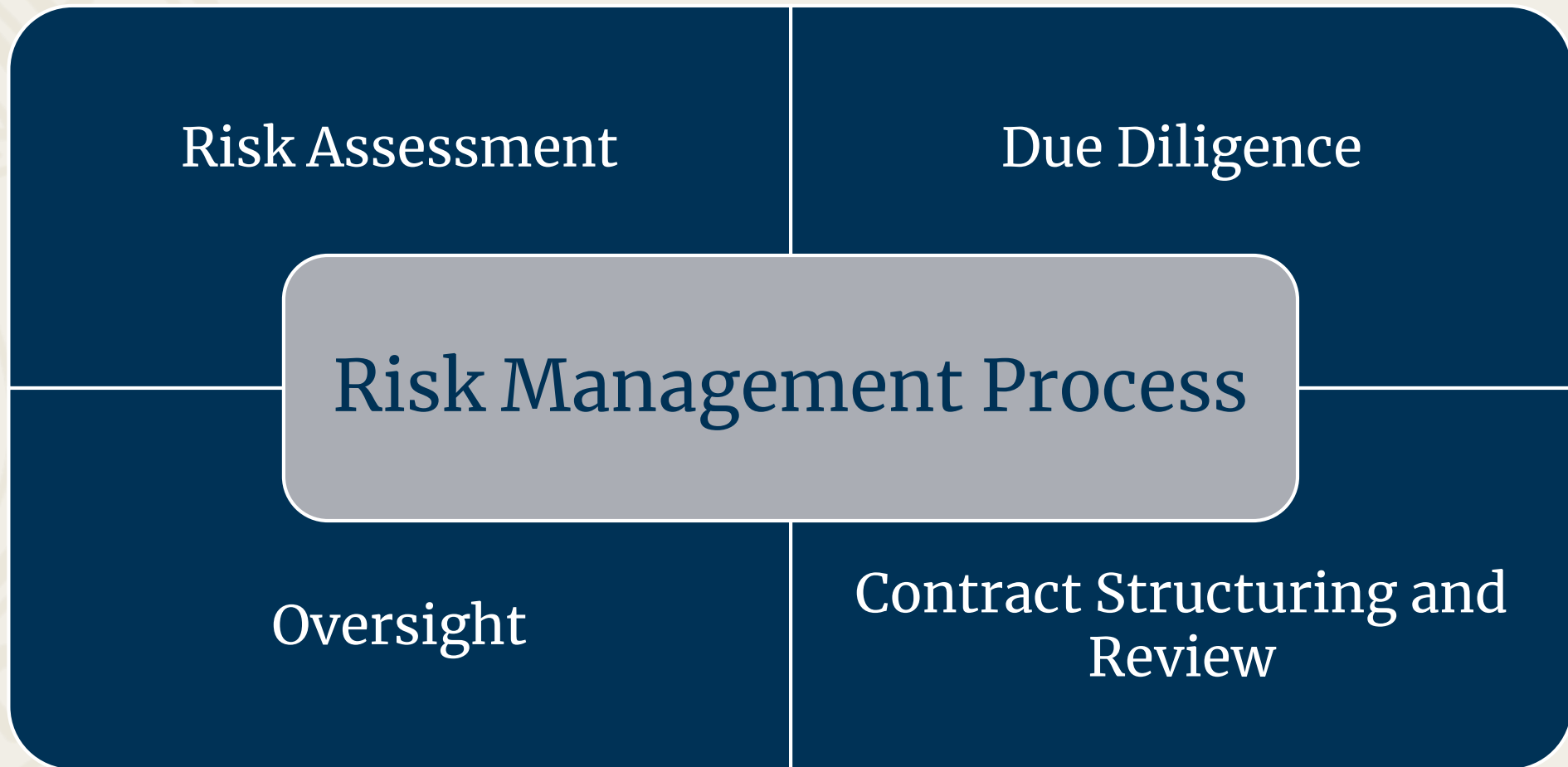
Engaging in New Activities or Investments

- [Part 362 of the FDIC Rules and Regulations](#)
 - Outlines permissible banking activities and investments
 - Only applies to activities conducted “as principal”
- Generally, filing requirements depend on the activity/investment
 - No filing if activity is permissible for a national bank
 - Prior consent needed for other activities
 - Restrictions and conditions may apply
 - No significant risk to the Deposit Insurance Fund
 - Compliance with applicable capital standards
 - [Part 303 of the FDIC Rules and Regulations](#) outlines filing procedures

Engaging in New Activities or Investments

- [FIL-54-2014](#) – Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments that are Permissible for National Banks
 - Legal opinions
 - Relevant OCC circulars, bulletins, letters, etc.
- Contact your Case Manager or regional office representative

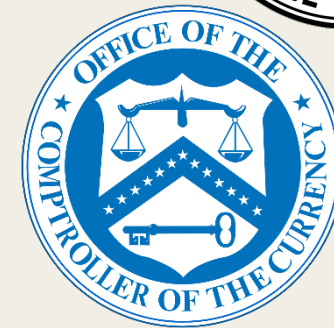
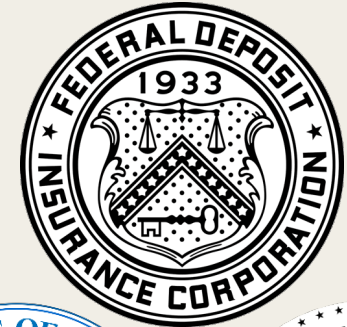
Third-Party Risk Management



Third-Party Risk Management

7/13/2021 – FIL-50-2021: *Proposed Interagency Guidance on Third-Party Relationships: Risk Management*

- Would replace FIL-44-2008
- Principles-based
- Uniform approach among the agencies
- Contains aspects of compliance management, consumer harm, fair lending, and UDAP
- No timeframe for issuance of final guidance



Resources

- [Appendix A to Part 364](#) – Interagency Guidelines Establishing Standards for Safety and Soundness
- [Appendix B to Part 364](#) – Interagency Guidelines Establishing Information Security Standards
- [FIL-44-2008](#) – Guidance for Managing Third-Party Risk
- [Section VII of the Consumer Compliance Examination Manual](#) – Unfair and Deceptive Practices – Third Party Risk
- [Unfair, Deceptive, or Abusive Acts or Practices](#) Banker Resource Center
- [Fair Lending](#) Banker Resource Center

Resources

- [AML/CFT](#) Banker Resource Center
- [Information Technology and Cybersecurity](#) Banker Resource Center
- [FIL-22-2017](#) – Adoption of Supervisory Guidance on Model Risk Management
- [Bank Application Resources](#) – Part 362 Activities and Investments
- Your RMS Case Manager or DCP Review Examiner

Resources

Conducting Due Diligence on Financial Technology Companies A Guide for Community Banks

AUGUST 2021



<https://www.fdic.gov/news/press-releases/2021/pr21075a.pdf>

Resources

February 2020



CONDUCTING BUSINESS WITH BANKS

A GUIDE FOR FINTECHS AND THIRD PARTIES



<https://www.fdic.gov/fditech/guide.pdf>

Questions?

