Comments on the Federal Deposit Insurance Corporation's Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services

September 2020

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

718 Seventh Street NW
Washington, D.C. 20001

T. +1 (202) 715-2270
kristin@theblockchainassociation.org
miller@theblockchainassociation.org

www.theblockchainassociation.org

22 September 2020

Re: Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services (RIN 3064–ZA18)

The Blockchain Association (the Association)[1] appreciates the opportunity to respond to the Federal Deposit Insurance Corporation's (FDIC) request for information on standard setting and voluntary certification models for third-party providers of technology and other services.[2] A voluntary certification model for third-party providers of innovative services, including cryptocurrency-related services, would promote innovation, transparency, and inclusivity within the U.S. banking system. We commend the FDIC for its focus on these challenges and welcome the FDIC's ongoing engagement with the industry.

The U.S. benefits greatly from its continued position as the world's financial leader. To retain this advantage, the U.S. must remain at the forefront of financial innovation. Cryptocurrencies and blockchains—and the "tokenization" of assets and value more broadly—are driving the next major wave of innovation in the financial and technology sectors. The U.S. banking system must be receptive to this changing technological landscape. Encouraging partnerships between FDIC-regulated financial institutions and "fintechs" is an important step in promoting innovation and inclusivity within the domestic banking system, particularly in the cryptocurrency and blockchain sector. At a minimum, U.S. banks of all sizes must be prepared for a tokenized, digital-first future. However, we hope to see U.S. banks at the vanguard of promoting the creation and adoption of new technologies that can make the business of banking more efficient, accessible, and secure.

Since the creation of the first cryptocurrency eleven years ago, American innovators have explored a range of potential applications of blockchains, from improving the settlement of securities transactions to automated market making. Indeed, blockchains can facilitate novel services that improve activities central to the business of banking, such as "programmable money" that permits conditional transfers of value, "tokenized" identity that supports safe and secure customer identification, and open and transparent ledgers that can enhance auditability. Importantly, since the industry is still in its infancy, use cases for blockchains and

[1] The Blockchain Association is a 501(c)(6) trade association based in the United States working to improve the public policy environment so that blockchain networks and cryptocurrencies can thrive.

[2] Federal Register 85:143 (July 24,2020) p.44890. Available at: https://www.fdic.gov/news/press-releases/2020/pr20083a.pdf.

cryptocurrencies that improve and expand the provision of financial services and the business of banking will likely emerge that have not yet been imagined.

The potential of blockchain-enabled technologies to bring efficiencies to payments and expand financial inclusivity is especially pertinent in light of the fact that tens of millions of Americans are not served by the existing banking system. According to the Bank of International Settlements, "even in advanced economies, some groups lack access to bank accounts and the associated payment options; nearly half of Black and Hispanic US households are unbanked or underbanked."[3] Indeed, the Federal Reserve found that in 2019 in the United States, "the unbanked and underbanked were more likely to have low income, have less education, or be in a racial or ethnic minority group. Fourteen percent of those with incomes below $40,000 were unbanked, versus one percent of those with incomes over that threshold. Additionally, 14 percent of black adults and ten percent of Hispanic adults were unbanked, versus six percent of adults overall."[4] Community banks service a significant portion of banking customers in the United States, particularly in communities historically underserved by the financial system. At the same time, smaller banks may not possess the in-house capability to develop and bring to market cutting edge financial solutions.

Compared to their larger counterparts, small financial institutions like community banks have long struggled to bear regulatory costs while remaining competitive, a situation that has increased concentration within the banking system over the last several decades.[5] At the same time, consumers' demand for ever-more-convenient banking options, from online and mobile services to instant payments, has driven smaller financial institutions to invest heavily in new services and technologies or risk losing customers.[6] "Technology is driving far reaching changes in banking practices for institutions of all sizes, including the community banks that are characterized as relationship lenders," according to FDIC Chairman Jelena McWilliams. "One of the central policy questions for community banks going forward is how they will meet the challenges of an evolving financial sector while continuing to serve as relationship lenders," she said.[7]

Partnerships with third-party service providers, in particular fintech companies, offer community banks a cost-effective way to remain competitive and reach new customers by enabling them to offer new services without having to develop them in-house. Today, however, FDIC-regulated banks are individually responsible for evaluating their third-party partnerships

---

[3] "Annual Economic Report 2020" (Bank of International Settlements, June 2020), http://www.bis.org/publ/arpdf/ ar2020e.htm, 72.

[4] Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2019" (Washington D.C.: The Federal Reserve, May 21, 2020), https://www.federalreserve.gov/publications/2020-economic-well-being-of-us-households-in-2019-banking-and-credit.htm.

[5] Rachel Ensign Louise and Coulter Jones, "The Problem for Small-Town Banks: People Want High Tech Services," *The Wall Street Journal*, March 2, 2019, https://www.wsj.com/articles/the-problem-for-small-town-banks-people-want-high-tech-services-11551502885.

[6] Evan Sparks, "Demographic Destiny for Community Banks?," *ABA Banking Journal*, March 8, 2016, https://bankingjournal.aba.com/2016/03/demographic-destiny-for-community-banks/.

[7] "Community Banking in the 21st Century 2019" (Community Banking Research and Policy Conference, Federal Reserve Bank of Saint Louis, 2019), 7. Available at: https://www.communitybanking.org/~/media/files/publication/cb21publication_2019.pdf.

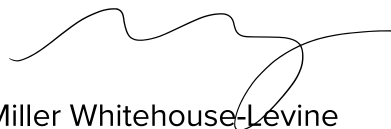
on an on-going basis, even if hundreds of peer banks subject to the same regulations partner with the same third-party service provider.

Creating a voluntary certification model would significantly improve the efficiency of this system, spur the adoption of innovative financial services, and reinforce the safety and soundness of the banking system. As the provision of banking services becomes ever-more technologically driven, the costs and expertise required merely to evaluate third-party fintech services will become increasingly prohibitive for smaller banks. Nevertheless, consumers will, of course, still demand from those banks the services that third-party fintechs provide.

Centralizing the evaluation of third-party fintechs for bank partnerships would make this process more efficient and secure. Banks could pool their resources into one certification and compliance evaluation process, easing the individual compliance burden that smaller institutions face. Moreover, compared to thousands of banks evaluating third-party relationships individually, a single certification organization would be better equipped to evaluate and monitor the risks associated with the technically complex products and services that fintechs offer. Smaller banks could more easily offer new and innovative services to meet consumers' demands if they could rely on a single certification for third-party partnerships. This will be especially important when it comes to partnerships with distributed ledger and cryptocurrency service providers, which emerged relatively recently and offer technologically advanced services.

Establishing a voluntary certification model for third-party providers of innovative services would help to level the playing field for community banks, allowing them to remain competitive with larger institutions and continue serving their customers. Additionally, in order to maintain a harmonized regulatory approach to banks' third-party relationships, we urge the FDIC to establish such a voluntary certification model in coordination with the other federal banking regulators. By working with private industry as well as other federal regulators to create a voluntary certification model, the U.S. banking system will be better equipped to promote innovation, transparency, competitiveness and inclusivity.

Sincerely,



Kristin Smith
Executive Director

Miller Whitehouse-Levine
Manager, Industry Relations