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KEYNOTE REMARKS: JELENA MCWILLIAMS

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PARTICIPANTS:

Moderator:

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Chief Executive Officer
Bank Policy Institute

Key Speaker:

JELENA MCWILLIAMS
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P R O C E E D I N G S

MR. BAER: So first, thanks so much for being here and especially so as I know you are feeling a little under the weather. Although it has done nothing to dampen your sense of humor.

MS. MCWILLIAMS: Well I did dance.

MR. BAER: Yes, they have no excuse. They feel great. (Laughter) So I can say that at the end of the conference. So again, I think we first sat together on the stage about six months ago when you were first coming on board. So how's things been since?

MS. MCWILLIAMS: It's been great. And I have to tell you, if Greg Baer ever asks you to have a fireside chat, tis like a fireside drill. (Laughter) So don't agree to it. Yes, it has been great.

MR. BAER: So I know that you announced then the plan to sort of visit all 50 states in something of a listening tour. So the most important question is do you get to keep your frequent flyer miles? And then second, you know, what have been you been learning about as if you were on the ground (inaudible)?

MS. MCWILLIAMS: So no comment on the first question. (Laughter) On the second one, it has been truly fascinating actually traveling around the country. But right now I was in Texas yesterday meeting with the bankers and some community groups as well and the state commissioners. You need to leave D.C. to learn what is outside the bubble and I'm particularly grateful for my experience in Ohio as well because we cannot regulate from inside the beltway. And we need to focus that there are many communities that need banking services and our regulatory framework should encourage banks to provide those services.

MR. BAER: So, I mean, obviously in part of your role as you are taking a pretty broad look at financial systems, certainly have been the ones at the FDIC but more broadly and I guess the classic question is, you know, sort of what keeps you up at night? Doesn’t necessarily have to be something bad. I mean, I sometimes get up at night with some new deregulatory idea but (laughter) what keeps you up at night?

MS. MCWILLIAMS: This is why Greg doesn't have a personal side. (Laughter). A lot of things keep me up at night. A lot of things concerning cyber security and I think that is probably prevalent in the room as well. What happens if anyone of you gets breached in a manner that gets undiscovered for days and (inaudible) the larger and broader financial system. What happens if (inaudible) agency gets hacked as well? And I want to be calm as in all the requirements for imposing banks and making sure that we hold ourselves to the same level of scrutiny that we hold the banks that we regulate.

Bank, large bank failure keeps me up at night. Not too much now because the banks are good and I am hoping that continues. How I would resolve a very large bank which is why I think some of the thoughts I outlined in the speech are crucial with the leaning forward where failure is okay. It is okay to fail. It is every company in the United States should be able to fail. And we just need to appropriate and plan for that. So that's something that I think about and make sure that we encourage large discipline and reduce as much as possible of all hazards that they had in 2008 and 9.

MR. BAER: So you have already outlined a pretty broad regulatory agenda in your prepared remarks. I mean, one you did not mention but I know you have been focused on relates to broken deposits.

MS. MCWILLIAMS: Yes.

MR. BAER: Could you venture to say what is going on there? So what's up?

MS. MCWILLIAMS: A lot of things. So we are looking, when I came to the FDIC, I realized that agencies are very good at being kind of stuck in their box, right. I mean, they do something a certain way for decades and they continue to do them that way. So from my perspective, I think it is important to be intellectualized and say that times have changed. Visual banking have changed, the landscape as we know it. The nature of the banks has changed as well over time and now we have a lot of non-bank entities that are participating in the same space as banks.

And it's fair that they put all the rules on the table and revisit especially since some of the rules for deposits and broken deposits have not been revisited by the agency in over 20 years. So it's definitely time that they take a look at.

So we will be issuing for about the comment requests for information on how can we update our rules to keep up with developments in the technological developments and the banking sector in general.

MR. BAER: Perfect. So I know

organizationally one change you are talking about here in the FDIC is a new office of innovation. I'll ask this maybe a little cynically but, I mean, why do you feel that $800 of innovation? Is innovation the agencies job or the banks job? You know, what do you think are the obstacles to banks innovating such that you have to form an office to facilities it?

MS. MCWILLIAMS: Yours. (Laughter) So it is important for the agencies not to play catch up. And generally the federal regulatory agencies play catch up. It's just the nature of the beast, that’s how we function. We are very conservative, we move slowly and we are not very quick to adapt to new technologies in the balance in the marketplace. And if in doubt usually the answer is no. Right. So I'm like we need to change that. We need to change it so that we engage with the right entities and we understand what the market participants are doing. And to be able to do that, we need to be thinking outside of the box.

So, you know, people talk about sand boxes. I'm like no, no, no. Outside of the sand box. And we need to provide environment, regulatory environment where banks can innovate again. And I'm concerned that the regulation withstand in the aftermath of the crisis has dissuaded banks from innovating because it is just too complicated. It is too convoluted and you don't know how your regulatory agency will react. And we are not, we are generally not eager to green light a new product or service but we need to be open to troubleshooting in our regular bank business saying well, you know what, maybe if we go ahead and roll out their product, lets monitor it together for six months. Let's take a look at your data and then perhaps it's a viable product for the consumers.

It will also help when you show unbanked and under banked. If we allow banks to innovate particularly with small dollar and some of the other products that some lower income communities are known to utilize more so than the higher end communities, we will be able to bring more people into the banks.

MR. BAER: So actually, how do the office sit within the larger FDIC bureaucracy not as a majority but, I mean, is everyone's job innovation or is it just this offices innovation or?

MS. MCWILLIAMS: So initially the office has so that we have the head of innovation at the FDIC and then probably is the call out to retail people for different divisions. (Inaudible) be safe and sound as saying oh there is A, B, the IT angle and we need to bring the internal expertise in all of that. And then over time we will just figure out what the appropriate place is for the office.

MR. BAER: Right.

MS. MCWILLIAMS: I'm trying to get it on my form, but they are telling me there is no room. We will see. (Laughter)

MR. BAER: So actually you mentioned the topic I wanted to raise which was, you know, income inequality where this has been the frequent topic here and I think we have a panel on it this afternoon. You know, and because I think we are doing a lot of research and I also surround, you know, obstacles to banks serving low to moderate income people that banks usually are the most dependable and low cost providers of those services.

And yet I think over time we have run up a lot of regulatory obstacles to doing that, everything from KYC to regulation to, you know, just, you know, supervisory mandates not to take certain risks and so how do you start peeling that orange?

MS. MCWILLIAMS: So we need to take a look at our regulatory framework and for all the talk that we have done in the past about unbanked, under banked, we have not really as an agency in my view done enough to enable banks to start post populations. There shouldn't be just a single prescribed loan how you serve those communities, right. Economic closure is very important. It is important for us, for the economic stability and it is also important for the banks. Because in reality you have two choices of attracting new deposits. You can take them from somebody else which has become very expensive and in some cases prohibitively expensive for smaller banks.

And then the other option is for pre bids to go out and get new depositors who are not a part of the financial system so there is an incentive here for banks to innovate and to be able to offer products to unbanked consumers so that they can bring them into the fold and make them become, you know, part of the financial system.

It worked for me when I arrived in the United States 27 years ago. I opened up a checking account and

I became a part of the broader community. I was secured credit card and I thought it was crazy. I had $500 to my name and I spent $300 to open up a secure credit card and then I was thinking I'm just borrowing against myself because that is important but in reality it worked because it was allowing me to establish a credit line, a credit score and I became a viable borrower and a consumer in this society. So I think there is a benefit to bringing people into the fold and letting them, you know, work at banks, become a home owner and send kids to college and buy cars, start small businesses.

MR. BAER: That’s a great thought. Well, thank you. We are going to take it easy on you because you (inaudible).

MS. MCWILLIAMS: okay, for the record, I have a migraine. I'm not sick. (Laughter)

MR. BAER: But seriously, thank you so much, it is always a pleasure.

MS. MCWILLIAMS: Thank you. Take care.

Applause)

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