

OCC Comptroller Hsu warns of a fintech fallout

Article

The news: Acting Comptroller of the Currency Michael Hsu warned that **the rise of unregulated fintechs will be the impetus of a financial crisis**, [per](#) Reuters.

What did he say? At a conference hosted by the Bank Policy Institute and the Clearing House Association, Hsu told attendees that fintechs and Big Tech are creeping their way into the banking industry, both independently and through partnerships with banks.

- He warned that **de-integration is making the banking sector susceptible to systemic risk.**

- If left unchecked, he believes the risk could escalate into a major problem or even a financial crisis.
- A main issue is that **it's becoming more difficult to decipher what is the bank's responsibility and what is the fintech firm's responsibility**, and plunging fintech valuations are making it easier for banks to partner with them.

In addition to cyber risks, information security and consumer protection risks, and resiliency risks, Hsu fears other risks could arise that have not yet been identified in such a new and quickly changing environment.

Organizations That Retail Investors Worldwide Would Trust as an Investment Platform, May 2022

% of respondents



Source: World Economic Forum, "The Future of Capital Markets: Democratization of Retail Investing" in collaboration with Accenture and BNY Mellon, Aug 4, 2022

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Nothing new: Regulators have previously flagged these issues—saying that loosely regulated fintechs continue to push further into the banking space.

Some fintech firms even portray themselves as banks, when in reality they've partnered with a bank that handles all banking-related services.

- Misrepresentation is common in the crypto space. For example, crypto broker **Voyager Digital** misleadingly implied customers' crypto deposits were FDIC-insured. But it's also been on the rise through the proliferation of neobanks and super apps.
- Consumers are not always aware of which entity is managing and benefiting from their money, and fintechs aren't always making their disclosures clear.

Baby steps: Last week, the Office of the Comptroller of the Currency (OCC) took a small step in “regulation through enforcement” by requiring Virginia-based **Blue Ridge Bank** to better monitor the risks posed by its fintech partners. The bank also must gain approval from the agency before partnering with any new fintechs or offering new products from existing fintech partners. But talk about formal regulation of fintechs has been just that—talk.

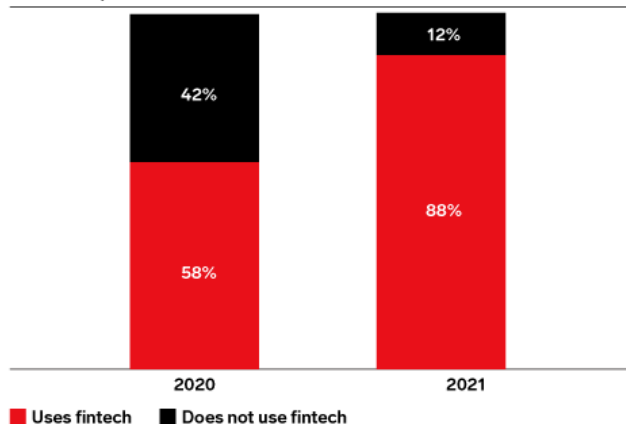
- The OCC **reorganized** earlier this year to enhance scrutiny of small and midsize banks that follow nontraditional business plans or are partnering with fintechs, but it still will only be overseeing technological changes.
- The Consumer Financial Protection Bureau (CFPB) also said it plans to exercise **greater oversight** of fintechs, but that’s not happening yet.
- This week, multiple regulatory agencies made contradictory statements regarding crypto regulation. **Federal Bank Chief Michael Barr vowed to make crypto a top priority of the Fed,** but **Securities and Exchange Commission Chairman Gary Gensler and the OCC’s Hsu both said there is no rush to regulate the digital currencies.**

The big takeaway: Hsu’s observations about banks partnering with fintechs aren’t wrong. Many banks, especially smaller banks, find it more cost-effective and quicker to partner with a fintech company than to develop digital capabilities in-house.

But it’s confusing and paradoxical that the same agency that patted itself on the back for **delaying** crypto regulation is now warning of a financial crisis due to a lack of regulation. It’s not unreasonable to hypothesize that lack of regulation was a contributing factor in the recent crypto crisis. And while the OCC boasts about the crypto fallout’s containment away from traditional asset markets, its lack of momentum on fintech firms could help cause a fintech catastrophe.

US Adults Who Use Fintech, 2020 & 2021

% of respondents



Source: Plaid, "2021 Fintech Report: The Fintech Effect: Fintech's Mass Adoption Moment" conducted by The Harris Poll, Oct 12, 2021

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