Fintech Companies are No Longer in “Uncharted” Territory

Dec 27, 2016

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The Office of the Comptroller of the Currency (OCC), a subset of the U.S. Treasury Department, recently announced that it will create a special purpose national bank charter specifically for financial technology (fintech) companies. This announcement comes on the heels of the rapid rise in fintech and in the number of companies that use such technology. An official charter aims to supervise the more than 4,000 fintech companies more closely and provide a framework for new companies to operate in the financial services industry.

To qualify for a special purpose charter, a fintech company must conduct at least one of three core banking activity: it must receive deposits, pay checks or lend money. Companies that pay checks likely include those who conduct peer-to-peer payments. Chartered fintech companies would be able to expand operations nationally without joining with brick-and-mortar banks or seeking approval in each new state.

Consumers stand to gain from the changes. Greater competition in the financial services industry would promote service that aligns with consumer expectations for more accessible payment options. It would also expand service to underserved populations, something research indicates might be at least as beneficial as targeted aid programs.

The OCC suggests the new system will give regulators mechanisms to ensure fintech companies are adequately controlling risk. Inherent in that benefit to regulators is the potential for increased compliance costs for companies because chartered fintech companies will be subject to the laws and regulations applicable to national banks. Such laws include lending limits, the Bank Secrecy Act, and the chartering regulations of 12 CFR Part 5. However, the costs of more complicated regulatory interactions will likely be outweighed by the potential for greater innovation.

The current changes are optional, but companies specializing in financial technologies should consider how their business models would be impacted if charters became mandatory. You can find more information on the special purpose national bank charters for fintech companies here, and, through January 15, 2017, provide feedback to the OCC at specialpurposecharter@occ.treas.gov.