SPEECHES

Keynote Remarks 2025 Fintech Conference

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Keynote Remarks
2025 Fintech Conference:
Bank-Fintech Partnerships|Distributed Ledger Technology|Regulation and Fintech Innovation

Conference of State Bank Supervisors
President and CEO Brandon Milhorn
Federal Reserve Bank of San Francisco
April 4, 2025

Thank you for that kind introduction. I would like to thank President Mary Daly and the San Francisco Fed for the opportunity to participate in this discussion of innovation in financial services.

It is particularly fitting that we are here in San Francisco.

American dynamism relies on competition, innovation, and grit. You cannot visit California without thinking of the hundreds of thousands that raced to the western slopes of the Sierra Nevadas in 1849 seeking their fortunes. Those 49ers were entrepreneurs. They took risks. They innovated. They had to be resilient. And, the economic and infrastructure boom that followed their arrival established California as an economic power – not just for the United States, but for the world.

That same spirit is evident today in Silicon Valley. Some of the world's greatest new technologies have sprung to life from the dreamers and creators working out of garages and basements just down the road. Their passion and drive are building the world of tomorrow, and the technology they have developed affects every part of our daily lives – including how we access and use financial services.

Financial technology has been a favorite of venture capitalists for some time. The impressive $21.5 billion that flowed into the sector last year was actually the lowest level of funding since 2016. New discoveries in areas like artificial intelligence present opportunities to reach underserved populations and cut costs for financial products and services.[1]

There is a reason that investors find this sector so tantalizing . . . the financial services market is ripe for innovation. Banks should be leading the charge, and yet 40% of banking systems are built on COBOL, a 65-year-old programming language.[2]

It is critical that our dynamic banking system continues to flourish by developing innovations from within and by partnering with third parties that are bringing new technologies and ideas to banking.

These partnerships are particularly important for community banks. I have talked at length about the headwinds facing community banks – costs of personnel, technology, and regulatory compliance, competition from non-banks, access to funding . . . the list goes on and on. We have lost 2,000 community banks over the last decade, and we must reverse this trend. Community banks are too important to our American economic system, particularly for small businesses, farmers, and their local communities.[3]

So, why is innovation important for community banks? To reach new depositors. To cut operational costs. To reach underserved communities and reduce the cost of financial products. To provide new products and services that support their customers – deepening the relationship-based business model. Technology also presents opportunities to develop new operating models, including for de novo institutions.

But as it stands, our regulatory system does not incentivize innovation. Why try something new when the lack of clear, operational guidance means you are risking the wrath of your regulators on top of more complex execution risk? Would you attempt new partnerships or technology-based strategies in the face of 17 formal enforcement actions related to third-party risk management since 2022?[4] Is that effort to innovate courageous or fool-hardy?

Regulators must take a step back and reflect on what we have done that may have hindered responsible bank innovation and start asking what we can do to foster a stronger, more dynamic financial services marketplace.

Innovation is especially important to state regulators. The states have a responsibility to oversee safety and soundness and protect consumers, but they also have a mandate to encourage economic growth. State regulators supervise both banks and non-banks, and these non-banks are often the very institutions banks are seeking as partners.

Working with industry and other stakeholders, state supervisors have been putting significant thought into how to nurture innovation in financial services. With the proper guidance, we believe community banks and their technology partners can push into new frontiers, bringing innovative products and services to their customers responsibly and efficiently.

While the federal agencies have issued extensive guidance on third-party relationships, we consistently hear from banks that this is simply not enough. They say the guidance is fine for boards, but it does not address practical, day-to-day applications. What we hear most often is the need for targeted, risk-based, operational guidance. Guidance that provides a roadmap for the types of relationships banks want to start – deposit taking, lending, custody, or payments.

There are other interesting areas that demand our attention, such as distributed ledger technology. Congress is currently debating a national framework for stablecoin issuers.[5] In many ways, the framework would mirror the dual-banking model with firms acquiring a state or federal license. The framework itself would provide a regulatory floor that both state and federal stablecoin issuers must meet.

Stablecoins are an innovation in direct response to our payment system's own age and stagnation.[6] The underlying technology may help produce faster and potentially cheaper transactions. Stablecoins may also help resolve some of the currency exchange issues that have plagued both consumers making remittance payments and, on a grander scale, multinational companies looking to take their cash out of more remote markets. But the regulatory approach to stablecoins must keep in mind that technology alone cannot solve traditional financial regulatory challenges, including the importance of meaningful capital and the predictability required to gain consumer confidence in any new financial product.

While CSBS supports a national framework for stablecoins that provides a sound foundation for the new technology, we have expressed significant concerns[7] with the bills now moving through the Senate and House.

Stability born of sound financial guardrails and predictability that establishes consumer trust are key components for any stablecoin bill. We do not believe the current bills meet these objectives.

Instead of a narrow authorization for a new business model and technology . . . focusing on issuance and payments . . . both bills open the aperture for adventures in other areas – lending, market making, investment. These additional activities add needless risk, and when juxtaposed against capital limitations, also exacerbate financial stability and run risks.

The bills also fail to provide for parity between state and federal licensees – a critical component in the success of our dual banking system. This dynamic and competitive environment is a feature of the dual banking system, not a flaw. We should not retreat from it in our national stablecoin framework.

State regulators want to find ways to help banks innovate and succeed, and we are not alone. Both FDIC Acting Chairman Travis Hill and Fed Board Governor Miki Bowman have indicated their support of banking innovation.[8] We are encouraged by their comments and believe that we can work with our federal partners to foster American dynamism in the banking sector.

If we want to succeed, we are going to have to remember what worked for the 49ers. They took risks. They innovated, and they were resilient.

I look forward to our conversation about how we can do exactly that for American financial services.

Endnotes

1 "FinTech Funding Hits 8-Year Low as VCs Embrace AI," *PYMNTS* (March 3, 2025).

2 Lily Jamali and Rosie Hughes, "The 65-Year Old Computer System at the Heart of American Business," *Marketplace Tech* (podcast) (April 15, 2024).

3 Brandon Milhorn, Federal Reserve Bank of Atlanta Banking Outlook Conference, "Benefits of Dual Banking System Supervision in Uncharted Waters" (Feb. 27, 2025).

4 *See* list of enforcement actions taken against state and federally chartered banks by regulators, including the FDIC, OCC, Federal Reserve Board, Arkansas State Bank Department, New York Department of Financial Services, and Ohio Department of Commerce Division of Financial Institutions.

5 The STABLE Act of 2025 (H.R. 2392) is a bipartisan bill led by primary cosponsors Reps. Bryan Steil (R-WI), French Hill (R-AR), and Ritchie Torres (D-NY). The GENIUS Act of 2025 (S. 919) is a bipartisan bill led by primary cosponsors Sens. Bill Hagerty (R-TN), Tim Scott (R-SC), Kirsten Gillibrand (D-NY), Cynthia Lummis (R-WY), and Angela Alsobrooks (D-MD).

6 Dylan Matthews, "Why it still takes days for banks to give you your money," *Vox* (March 26, 2025) ("For years, the Federal Reserve has been building out an instant payments system called FedNow, meant to supplement or eventually supplant traditional ACH (automatic clearing house) transfers, the slow but cheap multiday check-clearing system now used for many transactions, like paychecks and rent payment. So far, though, it's been largely a bust. The service's most recent quarterly report, for Q3 2024, reported only 336,000 transactions. By contrast, the Fed processed 5 billion ACH transfers that quarter; next to that, FedNow is a rounding error.").

7 *See* CSBS letter to House Financial Services Chairman French Hill and Ranking Member Maxine Waters (D-CA) on the STABLE Act (April 1, 2025); CSBS letter to Senate Banking Committee Chairman Tim Scott and Ranking Member Elizabeth Warren (D-MA) on the GENIUS Act (March 11, 2025).

8 "Statement from FDIC Acting Chairman Travis Hill" (Jan. 21, 2025) ("I expect the FDIC to focus on . . . [adopting] a more open-minded approach to innovation and technology adoption[.]"); Federal Reserve Governor Michelle Bowman: "Our goal should be to build and support a clear and sensible regulatory framework that anticipates ongoing and evolving innovation—one that allows the private sector to innovate while also maintaining appropriate safeguards." Kansas Bankers Association Government Relations Conference, "Bank Regulation in 2025 and Beyond" (Feb. 5, 2025).

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